

Edgar Filing: ECOLOCLEAN INDUSTRIES INC - Form 10QSB

ECOLOCLEAN INDUSTRIES INC  
Form 10QSB  
August 14, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-QSB

(Mark one)

Quarterly Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ending June 30, 2006

Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

ECOLOCLEAN INDUSTRIES, INC.  
(Exact name of small business issuer as specified in its charter)

Nevada  
-----  
(State of incorporation)

98-0420750  
-----  
(IRS Employer ID Number)

2242 South Hwy #83, Crystal City, TX 78839  
(Address of principal executive offices)

(830) 374-9100  
(Issuer's telephone number)

Securities registered under Section 12 (b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock - \$0.0001 par value

Check whether the issuer has (1) filed all reports required to be files by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
--- ---

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No  
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Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No   
--- ---

## APPLICABLE ONLY TO CORPORATE ISSUERS

As of June 30, 2006, there were 58,090,085 shares of Common Stock issued and outstanding.

Transitional Small Business Disclosure Format: Yes  No   
--- ---

## ECOLOCLEAN INDUSTRIES, INC. FORM 10-QSB

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ECOLOCLEAN INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS  
-----

	June 30, 2006 ----- (Unaudited)	December 31, 2005 -----
Current Assets:		
Cash	\$ 9,328	\$ 8,649
Accounts Receivable	118,814	100,839
Inventory	187,426	76,091
Prepaid Expenses	24,552	44,594
Current Portion of Assets Of Discontinued Operations	60,278	58,520
	-----	-----
Total Current Assets	400,398	288,693
	-----	-----
Property Plant and Equipment, Net	228,982	364,130
	-----	-----
Other Assets:		
Deposits	6,450	6,450
License & Trademark Costs (Net)	10,037	12,836
Patent	480,000	0
Goodwill	310,696	310,696
	-----	-----
Total Other Assets	807,183	329,982
	-----	-----
Total Assets	\$ 1,436,563	\$ 982,805
	=====	=====

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See Accompanying Notes to Condensed Consolidated Financial Statements

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ECOLOCLEAN INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(CONTINUED)

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

	June 30, 2006	December 31, 2005
	----- (Unaudited)	-----
Current Liabilities:		
Current Maturities-Notes and		
Loans Payable	\$ 418,137	\$ 198,161
Accounts Payable and Accrued Expenses	1,488,655	1,225,212
Current Portion of Liabilities		
Of Discontinued Operations	102,882	117,220
	-----	-----
Total Current Liabilities	2,009,674	1,540,593
Long-Term Debt	9,859	15,494
Due to Related Parties	1,434,300	1,302,085
	-----	-----
Total Liabilities	3,453,833	2,858,172
	-----	-----
Commitments and Contingencies	--	--
Stockholders' (Deficit):		
Preferred Stock, \$0.01 par value		
1,000,000 shares authorized, none issued	--	--
Common Stock, \$.0001 par value per share,		
100,000,000 shares authorized; 51,600,085		
shares issued and outstanding December		
31, 2005; 58,090,085 shares issued and		
outstanding June 30, 2006	5,809	5,160
Additional Paid-in Capital	6,031,964	5,358,581
Accumulated (Deficit)	(8,055,043)	(7,239,108)
	-----	-----
Total Stockholders' (Deficit)	(2,017,270)	(1,875,367)
	-----	-----

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Total Liabilities and Stockholders' (Deficit)	\$ 1,436,563	\$ 982,805
	=====	=====

See Accompanying Notes to Condensed Consolidated Financial Statements

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ECOLOCLEAN INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended June 30, 2006 -----	Three Months Ended June 30, 2005 ----- (Restated)
Revenues:	\$ 73,003 -----	\$ 8,889 -----
Expenses:		
Cost of Sales	82,399	2,504
Operating Expenses	16,365	21,928
Depreciation & Amortization	21,695	24,339
Interest	29,368	32,480
Officer's Salary	52,500	30,000
Selling, General and Administrative	363,393	326,340
Total Expenses	565,720 -----	437,591 -----
(Loss) From Operations	(492,717)	(428,702)
Other Income/ (Expenses)		
Gain on Sale of Assets	76,066 -----	0 -----
Net (Loss) From Continuing Operations	(416,651)	(428,702)
Net Gain/ (Loss) From Discontinued Operations	(4,797) -----	42,853 -----
Net (Loss)	\$ (421,448) =====	\$ (385,849) =====

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Net (Loss) Per Common Share		
Basic and Diluted		
Net (Loss) From Continuing Operations	\$ (0.01)	\$ (0.01)
Net (Loss) From Discontinued Operations	(0.00)	(0.00)
	-----	-----
Total	\$ (0.01)	\$ (0.01)
	=====	=====
Weighted Average Number of Common		
Shares Outstanding	56,760,085	42,077,135
	=====	=====

See Accompanying Notes to Condensed Consolidated Financial Statements

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### ECOLOCLEAN INDUSTRIES, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Six Months Ended June 30, 2006 -----	Six Months Ended June 30, 2005 ----- (Restated)
Revenues:	\$ 138,603	\$ 8,889
	-----	-----
Expenses:		
Cost of Sales	161,644	2,504
Operating Expenses	37,101	76,182
Depreciation & Amortization	33,627	47,595
Interest	54,156	62,815
Officer's Salary	105,000	60,000
Selling, General and Administrative	628,744	598,534
	-----	-----
Total Expenses	1,020,272	847,630
	-----	-----
(Loss) From Operations	(881,669)	(838,741)
Other Income/ (Expenses)		
Gain on Sale of Assets	76,066	0
	-----	-----
Net (Loss) From Continuing Operations	(805,603)	(838,741)

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Net (Loss) From Discontinued Operations	(10,332)	(86,208)
	-----	-----
Net (Loss)	\$ (815,935)	\$ (924,949)
	=====	=====
Net (Loss) Per Common Share Basic and Diluted		
Net (Loss) From Continuing Operations	\$ (0.01)	\$ (0.02)
Net (Loss) From Discontinued Operations	(0.00)	(0.00)
	-----	-----
Total	\$ (0.01)	\$ (0.02)
	=====	=====
Weighted Average Number of Common Shares Outstanding	54,845,085	41,592,135
	=====	=====

See Accompanying Notes to Condensed Consolidated Financial Statements

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ECOLOCLEAN INDUSTRIES, INC.  
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS  
(UNAUDITED)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	-----	-----
		(Restated)
Cash Flows Provided (Required) By		
Operating Activities:		
Net (Loss)		
From Continuing Operations	\$ (805,603)	\$ (838,741)
From Discontinued Operations	(10,332)	(86,208)
Adjustments to Reconcile Net (Loss)		
To Net Cash Provided (Required)		
By Operating Activities:		
Depreciation and Amortization		
From Continuing Operations	33,627	47,595
From Discontinued Operations	0	35,712
Issuance of Common Stock		
For Services Provided	247,350	191,000
(Gain)/Loss on Sale of Assets	(76,066)	(60,653)
Officer's Salary	105,000	60,000
Changes In:		
Accounts Receivable	(19,349)	133,334
Inventory	(111,335)	0
Prepaid Expenses	20,042	54,311

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Deposits	0	10,970
Accounts Payable and Accrued Expenses	170,788	36,558
	-----	-----
Net Cash (Required)		
By Operating Activities	(445,878)	(416,122)
	-----	-----
Cash Flows Provided (Required)		
By Investing Activities:		
Deposits and Advances For		
Pending Acquisitions	0	(197,439)
Proceeds - Sale of Equipment	198,631	385,856
Acquisitions of Property, Plant & Equipment	(18,245)	(26,198)
	-----	-----
Net Cash Provided (Required)		
By Investing Activities	180,386	162,219
	-----	-----

See Accompanying Notes to Condensed Consolidated Financial Statements

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ECOLOCLEAN INDUSTRIES, INC.  
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS  
(UNAUDITED)

(CONTINUED)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	-----	-----
		(Restated)
Cash Flows Provided (Required) By		
Financing Activities:		
Proceeds - Sale of Common Stock	70,000	0
Note Receivable - Sale of Assets	0	(85,000)
Proceeds of Short-Term Loans	247,500	0
Payment of Short-Term Loans	(177,525)	(88,720)
Payments of Long-Term Loans	(5,635)	(3,051)
Proceeds of Loans from Related Parties	132,215	432,343
	-----	-----
Net Cash Provided By Financing Activities	266,555	255,572
	-----	-----
Net Increase in Cash	1,063	1,669
Cash at Beginning of Period	11,290	5,929
	-----	-----
Cash at End of Period	\$ 12,353	\$ 7,598
	=====	=====

Supplemental Disclosures Of  
Cash Flow Information



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Cash Payments for Interest	\$ 5,413	\$ (16,975)
	=====	=====
Cash Payments For Income Taxes	\$ 0	\$ 0
	=====	=====
Non-Cash Investing and Financing Activities:		
Issuance of Common Stock:		
Repayment of Loan from Related Party	\$ 0	\$ 1,250,000
Acquisition of Patent	330,000	0
Payment of Accounts Payable	26,683	12,000
	-----	-----
Total Non-Cash Financing Activities	\$ 356,683	\$ 1,262,000
	=====	=====

See Accompanying Notes to Condensed Consolidated Financial Statements

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ECOLOCLEAN INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006

NOTE 1 - BASIS OF PRESENTATION

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The accompanying unaudited condensed consolidated financial statements for the six month periods ended June 30, 2006 and 2005 have been prepared in conformity with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. The financial information as of December 31, 2005, is derived from the registrant's Form 10-KSB for the year ended December 31, 2005. Certain information or footnote disclosures normally included in condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The preparation of condensed 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 at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the accompanying consolidated financial statements include all adjustments necessary (which are of a normal and recurring nature)

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for the fair presentation of the results of the interim periods presented. While the registrant believes that the disclosures presented are adequate to keep the information from being misleading, it is suggested that these accompanying financial statements be read in conjunction with the registrant's audited consolidated financial statements and notes for the year ended December 31, 2005, included in the registrant's Form 10-KSB for the year ended December 31, 2005.

Operating results for the six-month period ended June 30, 2006, are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending December 31, 2006. The accompanying unaudited condensed consolidated financial statements include the accounts of the registrant and its wholly-owned subsidiaries, Ecoloclean, Inc., World Environmental Technologies, Inc., and Aquatronics Industries, Inc. The operations of two wholly-owned subsidiaries, Ecoloclean of Texas, Inc., and Reliant Drilling Systems, Inc., were discontinued during 2005. These financial statements reflect the net assets and net liabilities of the discontinued operations as well as the operating results of the discontinued units. All significant inter-company accounts and transactions have been eliminated in consolidation.

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ECOLOCLEAN INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006

NOTE 2 - GOING CONCERN  
-----

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which anticipates the realization of assets and the liquidation of liabilities during the normal course of operations. However, as shown in these condensed consolidated financial statements, the Company, during the six-month period ended June 30, 2006, incurred a net loss from continuing operations of \$805,603 and a net loss from discontinued operations of \$10,332. In addition, as at June 30, 2006, the Company's total liabilities exceeded its total assets by \$2,017,270. The Company has experienced significant recurring operational losses and negative cash flows from operations and at June 30, 2006, has an accumulated deficit of \$8,055,043. These factors raise doubt about the Company's ability to continue as a going concern if changes in operations are not forthcoming.

During the third quarter of 2005, the Company acquired 100% of the issued and outstanding stock of Aquatronics Industries, Inc., (Aquatronics), a company which specializes in the removal of impurities and waste by-products. Aquatronics has been in the waste water treatment field for over 20 years. Management believes that this acquisition will provide new avenues of opportunity in the development of its water remediation and purification services. In addition to the acquisition of Aquatronics, the Company, on March 23, 2006, acquired a certain patent relating to the disinfection and purification of water

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and related technology (See Note 3). Management, in its continuing efforts to obtain debt/equity financing, closed in February 2006 on a debt financing arrangement of approximately \$125,000. During June, the Company repaid the debt financing with a portion of the proceeds received from the sale of its Louisiana building. During the 2nd Quarter, the Company completed the sale of 1,400,000 shares of its restricted common stock for \$70,000. During July 2006, the Company completed the sale of an additional 1,000,000 shares of its restricted common stock for \$50,000. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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### ECOLOCLEAN INDUSTRIES, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

#### NOTE 3 - ACQUISITION OF PATENT

-----

On March 23, 2006, the Company acquired all rights, title and interest to a certain "patent" relating to the disinfection and purification of water and related technology. This "patent" had been recorded in the United States Patent and Trademark office on March 12, 2001. The cost of this "patent" is \$15,000 on the execution of the agreement (March 23, 2006) and nine monthly payments of \$15,000 per month commencing on May 1, 2006 and ending on January 1, 2007. In addition, the Company shall transfer 3,000,000 shares of restricted common stock of Ecoloclean Industries, Inc., to the holder of the patent. As of March 31, 2006, 1,000,000 shares had been issued to the original patent owner and another 2,000,000 shares had been issued and were being held for later release (March 23, 2007) pursuant to the terms and conditions of the "Agreement for Assignment of Patent" dated March 23, 2006. A further condition of this "patent" acquisition requires the Company to pay a royalty to the original patent owner based on the gross sales of products utilizing the patented technology or any component thereof.

#### NOTE 4 - SUMMARY OF RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

-----

As a result of management re-evaluating its accounting treatment for certain restricted stock issued for services and fees, the June 30, 2005, interim condensed consolidated financial statements have been restated. In addition, management reclassified and netted all revenue and expenses related to discontinued operations and disclosed the net

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(loss) from discontinued operations as a separate line item and also segregated all assets and liabilities relating to the discontinued operations.

### NOTE 5- RELATED PARTY TRANSACTIONS

-----

The Board of Directors has approved a salary for services provided. At June 30, 2006, the cumulative amount of unpaid officer's salary was \$520,000 and is included in Accounts Payable and Accrued Expenses.

At June 30, 2006, cumulative advances bearing interest at 5% per annum due to officers of the Company amounted to \$1,434,300 plus \$233,790 of accrued interest. The accrued interest is included in Accounts Payable and Accrued Expenses. The advances are due July 10, 2007, with the right of prepayment.

### NOTE 6 - COMMON STOCK TRANSACTIONS

-----

On April 12, 2006, the Company sold 1,000,000 shares of its restricted common stock for \$50,000, which was received at that time.

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## ECOLOCLEAN INDUSTRIES, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 6 - COMMON STOCK TRANSACTIONS (CONTINUED)

-----

On May 1, 2006, the Company sold 400,000 shares of its restricted common stock for \$20,000, which was received at that time.

On June 5, 2006, the Company issued 100,000 shares of its common stock valued at \$12,000 for management services provided to a subsidiary.

On June 5, 2006, the Company issued 80,000 shares of its common stock valued at \$9,600 for accounting services provided to a subsidiary.

On June 5, 2006, the Company issued 80,000 shares of its common stock valued at \$9,600 for accounting services.

On June 12, 2006, the Company issued 1,000,000 shares of its restricted common stock valued at \$142,500 for consulting services.

### NOTE 7 - DISCONTINUED OPERATIONS

-----

During the first and second quarters of 2005, the Company implemented its decision to discontinue operations of two wholly-owned subsidiaries, Reliant Drilling Systems, Inc., (RDS) and Ecoloclean of

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Texas, Inc. (ECOT).

As a result of the Company discontinuing the operations of RDS and ECOT, the condensed consolidated financial statements and the related notes contained herein have been restated to reflect the financial position, results of operations and cash flows of RDS and ECOT as discontinued operations.

The following table sets forth, for the periods indicated, selected financial data of the Company's discontinued operations.

### SELECTED FINANCIAL DATA FOR DISCONTINUED OPERATIONS

	Six Months Ended	
	June 30, 2006	June 30, 2005
	-----	-----
Revenue	\$ 0	\$ 75,863
Cost of Sales	0	49,066
	-----	-----
Gross Profit	0	26,797
Expenses (Net of Gains/Losses on Sales of Assets)	10,332	113,005
	-----	-----
(Loss) From Discontinued Operation	\$ (10,332)	\$ (86,208)
	=====	=====

### NOTE 8 - SUBSEQUENT EVENTS

-----

On July 13, 2006, the Company completed the sale of 1,000,000 shares of its restricted common stock for \$50,000 and granted a three-year stock option at fifteen (\$0.15) cents per share to acquire 750,000 additional shares of the Company's restricted common stock to the investor.

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

### Management's Discussion and Analysis or Plan or Operation

#### Overview and Plan of Operation

#### Background

During the quarter ended June 30, 2006, Ecoclean Industries, Inc., (ECCI) had gross operating revenues of \$73,003 from continuing operations and \$0 from discontinued operations, which included its Louisiana subsidiary, Reliant Drilling Systems, Inc., (RDS) and its Texas subsidiary, Ecoclean of Texas, Inc., (ECOT) whose operations were discontinued during the first six months of 2005.

#### Current Operations

##### A. Industrial and Exploration Liquid Waste Remediation Services

World Environmental Technologies, Inc. is still awaiting the approval for the

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amendment to its State-Wide Water Discharge Permit which would allow World Environmental Technologies, Inc., to again offer its services of cleaning drill water to the oil and gas industry. Once approval of the amendment is received, it is anticipated that the services offered by World Environmental Technologies, Inc., could again be in demand. Until the approval occurs, the Company will utilize its equipment in any other income-producing activity which becomes available.

### B. Agricultural Clean Up

Ecoclean, Inc. (ECI), a wholly owned subsidiary of the Company, has devoted substantial efforts to the Dairy Industry as it pertains to the animal waste created by cows, swine and chickens. During the first quarter of 2006, we have been informed that Texas A&M University has finished their report, although we have not received a copy at this time. We assume that the EPA, American Dairy Association, Texas Farm Bureau and other interested agencies, have not received their copy. The Company does not expect any revenue producing activities from the agricultural business until the fourth quarter of 2006 at the earliest, subject to the receipt of a positive report from Texas A & M University. If the Company does have an opportunity to obtain contracts as a result of a positive report, it will then determine the economic feasibility of allocating the necessary funds if they are available.

### C. Coale Separator aka "Diesel Pure"

As outlined previously, ECCI obtained the Worldwide Exclusive Rights for the patented Coale Separator. This device is capable of removing contaminants from diesel fuel, such as water, sand and other impurities, thus increasing engine life, reducing injector replacement and engine wear.

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During the third quarter of 2005, the Company signed an exclusive marketing agreement with an experienced organization in the truck and auto after market and to the industrial market place. In order to sell our "Diesel Pure" product line in these market places, the Company is required to complete additional product information and instructions when adequate funding becomes available in order to gain further acceptance in the market place. If the Company cannot obtain adequate funding sufficient to allocate the necessary funds for the "Diesel Pure" Project, the Company will cancel its license.

### D. Aquatronics Industries, Inc.

On September 13, 2005, the Company completed the acquisition of 100% of the outstanding stock of Aquatronics Industries, Inc., located in Riverside, Rhode Island by the issuance of 2,500,000 shares of its restricted common stock and providing working capital of \$300,000. Aquatronics Industries, Inc., a wholly owned subsidiary of Ecoclean Industries, Inc., (ECCI) has provided creative and cost effective solutions to a wide range of industrial, commercial residential pure water, wastewater and solid waste management problems for in excess of 20 years. The Company intends to build on the 20 years of experience of Aquatronics' management and employees which includes a customer base and established reputations of technical expertise.

In addition to providing capital over the \$300,000 initial requirement and an amount in excess of \$150,000, Ecoclean Industries, Inc., has assisted

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"Aquatronics" in acquiring the "BioCatalytica" water purification patent (See New Developments). This patent both extends the activities in which "Aquatronics" is already engaged and expands its capabilities beyond the levels of its previous experience in a cost-effective manner.

### E. New Developments

On March 23, 2006, the Company's wholly owned subsidiary, Aquatronics Industries, Inc., acquired the "BioCatalytica" water purification patent rights, which acts as an adjunct to the active disciplines engaged in the production and installation of water remediation systems and also provides the Company with exclusive manufacturing rights.

Consideration includes \$150,000 due at closing with the remaining \$135,000 due at \$15,000 per month beginning May 1, 2006, and a 5% royalty in addition to 3,000,000 shares of Ecoloclean Industries, Inc. restricted common stock of which 1,000,000 shares were due at closing with the remaining 2,000,000 shares due within one year or earlier, subject to orders utilizing the patented compound. These shares have been issued and are being held for such releases.

Although "Aquatronics" revenues for the six months ended June 30, 2006, were \$135,563, which resulted in an operating loss of \$250,347, their management has indicated an increased level of revenues for the remaining months of 2006, based on their current back log and ongoing marketing and sales efforts.

### Financial Considerations

Currently, there are insufficient revenues and resources to offset annual operating overhead, which is now projected to be approximately \$500,000. Until the Company obtains the amount of working capital required to meet its continuing operating overhead, it will be necessary to call upon the investment community and/or the Company's officers and others associated with the Company for financial assistance.

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In addition to capital needs for operating overhead, the Company's need for capital has increased substantially as a result of it acquiring Aquatronics Industries, Inc. To meet these continuing and increasing needs, management's plans are to (i) to raise capital by obtaining financing through private placement efforts (ii) issue common stock for services rendered in lieu of cash payment and (iii) obtain loans from the President and other employees of the Company.

The Company's future ability to achieve these objectives cannot be determined at this time. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty and should not be regarded as typical for normal operating periods.

The Company believes that it will continue to incur losses for at least the next six months and, as a result, will require additional funds to meet such needs. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern.

The Company's future ability to achieve these objectives cannot be determined at this time. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty and should not be regarded as typical for normal operating period.

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### Conclusion

As stated here, future activities of the Company will be partially dependent on its ability to obtain additional funding in the near future and the success of its newly acquired subsidiary, Aquatronics Industries, Inc.

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### RESULTS OF OPERATIONS

**REVENUES:** The Company reported revenues of \$73,003 from continuing operations for the three months ended June 30, 2006, as compared to \$8,889 in revenues for the three months ended June 30, 2005. The increased revenues of \$64,114 were all due to revenues from our newly acquired subsidiary, Aquatronics Industries, Inc. ("Aquatronics").

**TOTAL COSTS AND EXPENSES:** Total costs and expenses increased from \$437,591 (restated) for the three months ended June 30, 2005, to \$565,720 for the three months ended June 30, 2006, of which \$187,903 was incurred at "Aquatronics." The decrease of \$59,774 (exclusive of "Aquatronics") was primarily due to the Company's cost reduction program. Non-cash stock-based costs and expenses totaled \$173,700 of the total costs and expenses.

**OPERATING EXPENSES:** Operating expenses decreased from \$21,928 for the three months ended June 30, 2005, to \$16,365 from continuing operations for the three months ended June 30, 2006. The decrease of \$5,563 was primarily due to the Company's cost reduction program.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Selling, general and administrative expenses increased from \$326,340 (restated) for the three months ended June 30, 2005, to \$363,393 for the three months ended June 30, 2006, of which \$64,944 was incurred at "Aquatronics." The decrease of \$27,891 (exclusive of "Aquatronics") was primarily due to the Company's cost reduction program.

**INCOME TAX:** The pre-tax loss increased from \$385,849 (restated) for the three months ended June 30, 2005, to \$421,448 for the three months ended June 30, 2006, a decrease of \$79,301 (exclusive of the \$114,900 loss at "Aquatronics").



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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES: Capital expenditures during the six months ended June 30, 2006, totaled \$18,345 as compared with \$26,198 for the six months ended June 30, 2005.

Sales of capital assets were \$198,631 (net of \$12,110 selling expenses) for the six months ended June 30, 2006, as compared to \$325,203 for the six months ended June 30, 2005. The 2005 sales of capital assets were sales of equipment and other capital assets of the Company's discontinued subsidiaries. The 2006 sales of capital assets included \$187,890 (net) from the sale of Company's Louisiana building.

Total debt increased from \$2,858,172 at December 31, 2005, to \$3,453,833 at June 30, 2006, an increase of \$595,661 inclusive of \$620,339 of "Aquatronics" debt. During the six months ended June 30, 2006, the Company received loans of \$132,215 from the President, \$107,500 from employees and a loan of \$125,000 from an outside financing source which was repaid during June. Total debt, as of June 30, 2006, and June 30, 2005, expressed as a percentage of the sum of total debt and shareholders' deficit was 240.4% and 290.8% respectively.

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Net loss for the six months ended June 30, 2006, was \$815,935 a decrease of 15.5% from the restated net loss of \$924,949 for the six months ended June 30, 2005. Basic and diluted net loss per common share decreased to \$0.01 for the six months ended June 30, 2006 from \$0.02 for the six months ended June 30, 2005.

DISCONTINUED OPERATIONS: The loss from discontinued operations for the three months ended June 30, 2006, includes losses of \$1,849 incurred by Reliant Drilling Systems, Inc., and \$2,948 incurred by Ecoloclean of Texas, Inc. These losses of each discontinued subsidiary represent a \$47,650 difference from the \$42,853 income from discontinued operations for the three months ended June 30, 2005.

GOING CONCERN: While the Company's unaudited condensed consolidated financial statements have been prepared on a going-concern basis which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain adverse conditions and events cast substantial doubt upon the validity of this assumption. Factors contributing to this substantial doubt include recurring losses from operations and net working capital deficiencies. As mentioned in the Financial Condition, Liquidity and Capital Resources section above, we are currently dependent on funding from the President and an employee of the Company to continue the Company's operations. The discontinuance of such funding and the unavailability of outside financing to replace such funding could result in the Company ceasing operations.

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FORWARD-LOOKING STATEMENTS:

We have included forward-looking statements in this report. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "estimate", "plan" or "continue" or the negative or other variations thereof are comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors. Factors that might cause forward-looking statements to differ materially from actual results include, among other things, overall economic and business conditions, demand for the Company's products, competitive factors in the industries in which we compete or intend to compete, impact and other uncertainties of our future acquisitions plans.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

The Company does not issue or invest in financial instruments or their derivatives for trading or speculative purposes. The operations of the Company are conducted primarily in the United States, and, are not subject to material foreign currency exchange risk. Although the Company has outstanding debt and related interest expense, market risk of interest rate exposure in the United States is currently not material.

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Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

As of the end of the reporting period, June 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including the Company's Chairman and Chief Executive Officer/Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), which disclosure controls and procedures are designed to insure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods specified by the SEC's rules and forms. Based upon that evaluation, the Chairman and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's period SEC filings.

(b) Changes In Internal Control Over Financial Reporting.

Subsequent to the date of such evaluation as described in subparagraph(a)above, there were no changes in our internal controls or other factors that could significantly affect these controls, including any corrective action with regard to significant deficiencies and material weaknesses.

(c) Limitations.

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. However, we believe that our disclosure controls and procedures are designed to provide reasonable assurance of achieving this objective. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are parties to various legal proceedings and claims incidental to our normal business operations for which no material liability is expected beyond that which has been recorded in our financial statements. While the ultimate resolution of the above matters is not known, management does not expect that the resolution of these matters will have a material adverse effect on the Company's financial statements and results of operation.

We are not aware of any material legal proceedings to which, any director, officer or affiliate of the Company, any owner of record or beneficial owner of more than 5% of our Company common stock, is a party to a legal proceeding adverse to our Company.

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

During our second quarter we offered, sold and issued the following common:

On April 12, 2006, the Company sold 1,000,000 shares of restricted common stock to Stanley Merdinger for \$50,000.

On May 1, 2006, the Company sold 400,000 shares of restricted common stock to William Birnbaum and Marsha Gottlieb for \$20,000.

On June 12, 2006, the Company issued 1,000,000 shares of restricted common stock to Roplis Holdings, Inc. for consulting services valued at \$142,500.

We believe the offer and sale of these securities qualifies for the securities transaction exemption permitted by Section 4(2) of the Securities Act of 1933, as amended, (the "Act"). These are restricted securities and may not be publicly resold without registration under the Act or an exemption from registration.

Item 3. Defaults Upon Senior Securities

None.

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

No matter was submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the quarter of the fiscal year covered by this report.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Exhibit Name
31	Chief Executive/Financial Officer-Section 302 Certification pursuant to Sarbanes-Oxley Act.
32	Chief Executive and Financial Officer-Section 906 Certification pursuant to Sarbanes-Oxley Act.

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.

ECOLOCLEAN INDUSTRIES, INC.

/s/ Royis Ward

Dated: August 14, 2006

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By: Royis Ward  
Title: President, CEO, CFO

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