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 March 31, 2013

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 001-35521

CLEARSIGN COMBUSTION CORPORATION

(Exact name of registrant as specified in its charter)

WASHINGTON	**26-2056298**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12870 Interurban Avenue South
Seattle, Washington 98168
(Address of principal executive offices)
(Zip Code)

(206) 673-4848
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 than the registrant was required to submit and post such files). Yes ☒ No ☐

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

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 ☒

As of May 6, 2013 the issuer has 8,793,265 shares of common stock, par value $.0001, issued and outstanding.

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PART I-FINANCIAL INFORMATION

ITEM 1

ClearSign Combustion Corporation
(a Development Stage Company)

Condensed Balance Sheets
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,655,000	$ 8,027,000
Prepaid expenses	158,000	60,000
Total current assets	6,813,000	8,087,000
Fixed assets, net	489,000	400,000
Patents and other intangible assets	780,000	618,000
Other assets	10,000	10,000
Total Assets	$ 8,092,000	$ 9,115,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 325,000	$ 276,000
Accrued compensation and taxes	265,000	168,000
Total current liabilities	590,000	444,000
Deferred rent	34,000	35,000
Total liabilities	624,000	479,000
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.0001 par value, zero shares issued and outstanding	-	-
Common stock, $0.0001 par value, 8,782,015 and 8,752,015 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	1,000	1,000
Additional paid-in capital	17,503,000	17,314,000
Deficit accumulated in the development stage	(10,036,000)	(8,679,000)
Total stockholders' equity	7,468,000	8,636,000
Total Liabilities and Stockholders' Equity	$ 8,092,000	$ 9,115,000

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

ClearSign Combustion Corporation
(a Development Stage Company)

Condensed Statements of Operations
(Unaudited)

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012	For the Period from Inception (January 23, 2008) to March 31, 2013
Operating expenses:			
Research and development	$ 458,000	$ 264,000	$ 2,166,000
General and administrative	903,000	600,000	7,899,000
Total operating expenses	1,361,000	864,000	10,065,000
Loss from operations	(1,361,000)	(864,000)	(10,065,000)
Other income (expense):			
Interest income	4,000	-	30,000
Interest expense	-	(1,000)	(1,000)
Total other income (expense)	4,000	(1,000)	29,000
Net Loss	$ (1,357,000)	$ (865,000)	$ (10,036,000)
Net Loss per share - basic and fully diluted	$ (0.15)	$ (0.17)	$ (2.50)
Weighted average number of shares outstanding - basic and fully diluted	8,781,348	5,153,315	4,011,703

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

ClearSign Combustion Corporation
(a Development Stage Company)

Condensed Statement of Stockholders' Equity
(Unaudited)
For the period from Inception (January 23, 2008) to March 31, 2013

	Common Stock		Common Stock Class B		Additional	Deficit Accumulated in the Development	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-In Capital	Stage	Equity
Shares issued to founders, at no cost	1,065,000	$ -	476,000	$ -	$ 33,000	$ -	$ 33,000
Shares issued for services ($0.02 per share)	125,000	-	-	-	2,000	-	2,000
Shares issued for cash ($0.02 per share)	-	-	384,000	-	10,000	-	10,000
Shares issued for cash ($1.80 per share)	467,310	-	-	-	841,000	-	841,000
Shares issued for cash ($2.20 per share)	1,363,364	-	-	-	2,999,000	-	2,999,000
Issuance costs	-	-	-	-	(813,000)	-	(813,000)
Shares issued in initial public offering ($4.00 per share)	3,450,000	1,000	-	-	13,799,000	-	13,800,000
Issuance costs of initial public offering	-	-	-	-	(2,727,000)	-	(2,727,000)
Share based payments of warrants	-	-	-	-	240,000	-	240,000
Shares issued for services ($1.80 per share)	146,644	-	-	-	264,000	-	264,000
Shares issued for services ($2.20 per share)	733,523	-	-	-	1,614,000	-	1,614,000
Shares issued for services ($4.00 per share)	18,000	-	-	-	72,000	-	72,000
Shares issued for services ($4.94 per share)	20,799	-	-	-	103,000	-	103,000
Shares issued to retire payable ($4.00 per share)	110,000	-	-	-	440,000	-	440,000
Conversion of shares	1,075,000	-	(860,000)	-	-	-	-
Share based compensation	177,375	-	-	-	437,000	-	437,000
Net loss	-	-	-	-	-	(8,679,000)	(8,679,000)
Balances at December 31, 2012	8,752,015	1,000	-	-	17,314,000	(8,679,000)	8,636,000
Shares issued for services ($5.00 per share)	30,000	-	-	-	150,000	-	150,000
Share based compensation	-	-	-	-	39,000	-	39,000
Net loss	-	-	-	-	-	(1,357,000)	(1,357,000)
Balances at March 31, 2013	8,782,015	$ 1,000	-	$ -	$ 17,503,000	$ (10,036,000)	$ 7,468,000

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

ClearSign Combustion Corporation
(a Development Stage Company)

Condensed Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,s 2013	2012	For the Period from Inception (January 23, 2008) to March 31, 2013
Cash flows from operating activities:			
Net loss	$ (1,357,000)	$ (865,000)	$ (10,036,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued or issuable for services	37,000	18,000	1,566,000
Share based payments	39,000	48,000	361,000
Depreciation	52,000	13,000	209,000
Deferred rent	(1,000)	18,000	34,000
Change in operating assets and liabilities:			
Prepaid expenses	15,000	(507,000)	(45,000)
Other assets	-	10,000	(10,000)
Accounts payable	49,000	439,000	819,000
Accrued compensation	97,000	205,000	380,000
Net cash used in operating activities	(1,069,000)	(621,000)	(6,722,000)
Cash flows from investing activities:			
Acquisition of fixed assets	(141,000)	(26,000)	(677,000)
Disbursements for patents and other intangible assets	(162,000)	(28,000)	(780,000)
Net cash used in investing activities	(303,000)	(54,000)	(1,457,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock for cash, net of offering costs	-	-	14,882,000
Proceeds from issuance of short term promissory note	-	-	98,000
Principal payments on promissory notes	-	(13,000)	(146,000)
Net cash provided by (used in) financing activities	-	(13,000)	14,834,000
Net increase (decrease) in cash and cash equivalents	(1,372,000)	(688,000)	6,655,000
Cash and cash equivalents, beginning of period	8,027,000	930,000	-
Cash and cash equivalents, end of period	$ 6,655,000	$ 242,000	$ 6,655,000
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ -	$ 1,000	$ 1,000

Supplemental disclosure of non-cash investing and financing activities:

During the three months ended March 31, 2013, the Company:

- issued 22,500 shares of common stock valued at $113,000 to directors for services to be performed from April to December 2013.

During the period from inception (January 23, 2008) to March 31, 2013, exclusive of the above, the Company:

- issued warrants to purchase 345,000 shares of common stock valued at $128,000 as part of an underwriting fee related to the initial public offering,
- issued 110,000 shares of common stock valued at $440,000 in partial satisfaction of an account payable,
- issued 263,637 shares of common stock valued at $580,000 and warrants to purchase 136,368 shares of common stock valued at $64,000 for issuance costs related to a common stock offering,
- issued 52,375 shares of common stock valued at $115,000 to certain employees to partially satisfy compensation accrued at December 31, 2010,
- issued 68,091 shares of common stock valued at $126,000 in order to discharge $99,000 of common stock to be issued at December 31, 2010 and pay rent for the eight months ended August 31, 2011,
- issued 49,728 shares of common stock valued at $90,000 in order to discharge the common stock to be issued at December 31, 2010,
- canceled 5,825 shares valued at $10,000 in order to partially discharge common stock to be issued at December31, 2010,
- made stock grants of 50,000 and 75,000 shares to an employee valued at $275,000 which is to be earned from July 2011 to September 2016,
- swapped 860,000 shares of Class B common stock held by its founding shareholders for 1,075,000 shares of common stock,
- converted a $46,000 account payable to a vendor and acquired a fixed asset valued at $2,000 through a $48,000 interest-bearing promissory note retired in 2012,

- issued 3,555 shares of common stock valued at $8,000 in partial satisfaction of an account payable,
- issued 10,834 shares of common stock valued at $20,000 in exchange for equipment.

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

ClearSign Combustion Corporation
(a Development Stage Company)
Notes to Unaudited Condensed Financial Statements

Note 1 – Organization and Description of Business

ClearSign Combustion Corporation (ClearSign or the Company) is a development stage company located in Seattle, Washington and incorporated in the state of Washington on January 23, 2008. The Company was formed to design, develop and market technologies that improve both the energy efficiency and emission control characteristics of combustion systems. The Company's Electrodynamic Combustion Control™ or ECC™ technology introduces a computer-controlled electric field into the combustion region which may better control gas-phase chemical reactions and improve system performance and cost-effectiveness.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed balance sheet at December 31, 2012 has been derived from the Company's audited financial statements.

In the opinion of management, these financial statements reflect all normal recurring and other adjustments necessary for a fair presentation. These financial statements should be read in conjunction with the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year or any other future periods.

Development Stage Enterprise

The Company is a development stage company as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 915, *Development Stage Entities*. The Company is devoting substantially all of its present efforts to design and develop new technologies in combustion systems and its planned principal operations have not yet commenced. The Company has not generated any revenues from operations and has no assurance of any future revenues. All losses accumulated since January 23, 2008 have been considered as part of the Company's development stage activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Cash is maintained with a commercial bank where accounts are generally guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Company's deposits may at times exceed this limit.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated lives of the respective assets. Leasehold improvements are depreciated over the life of the lease or their useful life, whichever is shorter. All other fixed assets are depreciated over thirty months to four years. Maintenance and repairs are expensed as incurred.

Patents and Trademarks

Patents and trademarks are recorded at cost. Amortization is computed using the straight-line method over the estimated useful lives of the assets once they are awarded, which has not yet occurred.

Impairment of Long-Lived Assets

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. As of March 31, 2013 and December 31, 2012, the Company determined that there was no impairment.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of cash and cash equivalents, accounts payable and accrued expenses. As of the balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheets. This is primarily attributed to the short maturities of these instruments. The Company did not identify any other non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value.

Research and Development

The cost of research and development is expensed as incurred. Research and development costs consist of salaries, benefits, share based compensation, consulting fees, rent, utilities, depreciation, and consumables.

Deferred Rent

Operating lease agreements which contain provisions for future rent increases or periods in which rent payments are reduced or abated are recorded in monthly rent expense in the amount of the total payments over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent which is reflected on the accompanying balance sheet.

Income Taxes

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Tax benefits from an uncertain tax position are recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Stock-Based Compensation

The costs of all employee stock options, as well as other equity-based compensation arrangements, are reflected in the financial statements based on the estimated fair value of the awards on the grant date. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Stock compensation for stock granted to non-employees is determined as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

Stock Issuance Costs

Stock issuance costs are recorded as a reduction of the related proceeds through a charge to stockholders' equity.

Common Stock

The Company records common stock issuances when all of the legal requirements for the issuance of such common stock have been satisfied.

Net Loss per Common Share

Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include additional common shares available upon exercise of stock options and warrants using the treasury stock method, except for periods for which no common share equivalents are included because their effect would be anti-dilutive. Potentially dilutive shares outstanding amounted to 1,124,733 and 575,743 at March 31, 2013 and 2012, respectively.

Recently Issued Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective standards, if adopted, will have a material effect on the financial statements.

Emerging Growth Company

The Company is an emerging growth company as defined under the Jumpstart Our Business Startups Act of 2012 (JOBS Act). An emerging growth company may delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company will remain an emerging growth company until December 31, 2017, although it will lose that status sooner if its revenues exceed $1 billion, if it issues more than $1 billion in non-convertible debt in a three year period, or if the market value of its common stock that is held by non-affiliates exceeds $700 million as of any June 30.

Note 3 – Fixed Assets

Fixed assets are summarized as follows:

	March 31, 2013	December 31, 2012
Machinery and equipment	$ 564,000	$ 444,000
Office furniture and equipment	71,000	71,000
Leasehold improvements	29,000	29,000
Accumulated depreciation	(209,000)	(157,000)
	455,000	387,000
Construction in progress	34,000	13,000
	$ 489,000	$ 400,000

Note 4 – Stockholders' Equity

Common Stock and Preferred Stock

The Company is authorized to issue 62,500,000 shares of common stock and 2,000,000 shares of preferred stock. Preferences, limitations, voting powers and relative rights of any preferred stock to be issued may be determined by the Company's Board of Directors. The Company has not issued any shares of preferred stock.

In April and May 2012, the Company completed an initial public offering (IPO) whereby 3,450,000 shares of common stock were issued at $4.00 per share, which included the exercise of the overallotment allowance by the underwriter, MDB Capital Group LLC (MDB). Gross proceeds from the IPO totaled $13.8 million and net cash proceeds approximated $11.2 million. Expenses of the offering approximated $2.7 million, including underwriter fees of $1.2 million paid to MDB along with 345,000 warrants to purchase ClearSign's common stock at $5.00 per share exercisable from April 2013 to April 2017 valued at $128,000, qualified independent underwriter fees of $110,000, underwriter legal fees of $125,000, underwriter expenses of $35,000, and issuer legal fees of $822,000, which was paid in part through the issuance of 110,000 shares of the Company's common stock to its legal counsel at a price of $4.00 per share.

Equity Incentive Plan

The Company has an Equity Incentive Plan (the Plan) which provides for the granting of options to purchase shares of common stock, stock awards to purchase shares at no less than 85% of the value of the shares, and stock bonuses to officers, employees, board members, consultants, and advisors. The Compensation Committee of the Board of Directors is authorized to administer the Plan and establish the grant terms, including the grant price, vesting period and exercise date. As of March 31, 2013, the number of shares reserved for issuance under the Plan totaled 985,434 shares. The Plan provides for periodic increases in the number of authorized shares available for issuance under the Plan on the first day of each of the Company's fiscal quarters. The Plan provides for quarterly increases in the available number of authorized shares equal to the lesser of 10% of any new shares issued by the Company during the quarter immediately prior to the adjustment date or such lesser amount as the Board of Directors shall determine.

In January 2013, the Company granted 203,990 stock options under the Plan to certain employees. The stock options have an exercise price of $4.88 per share, the grant date fair value, a contractual life of 10 years, and vest over four years. The fair value of stock options granted in January 2013 estimated on the date of grant using the Black-Scholes option valuation model was $302,000. The recognized compensation expense associated with these grants for the three months ended March 31, 2013 was $19,000.

In January 2013, the Company granted 30,000 shares of common stock under the Plan to its three independent directors in accordance with agreements for board service in 2013. The fair value of the stock at the time of grant was $5.00 per share for a total value of $150,000 which the Company will recognize in general and administrative expense on a quarterly basis in 2013, including $37,000 for the three months ended March 31, 2013.

Outstanding stock option grants at March 31, 2013 and December 31, 2012 totaled 563,365 and 359,375 with 263,337 and 242,188 being vested and exercisable at March 31, 2013 and December 31, 2012, respectively. Stock grants made to date through March 31, 2013 and December 31, 2012 totaled 175,799 shares and 145,799 shares, respectively. Of these amounts, 56,000 and 60,000 at March 31, 2013 and December 31, 2012, respectively, are subject to declining repurchase rights by the Company at $0.0001 per share through September 30, 2016. The recognized compensation expense associated with these grants for the three months ended March 31, 2013 and 2012 totaled $39,000 and $48,000, respectively. At March 31, 2013, the number of shares reserved under the Plan but unissued totaled 246,270. At March 31, 2013, there was $463,000 of total unrecognized compensation cost related to non-vested share based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.4 years.

Warrants

The Company has the following warrants outstanding at March 31, 2013:

	Total Outstanding Warrants		
Exercise Price	Warrants	Weighted Average Exercise Price	Life (in years)
$ 0.00	80,000	$ 1.80	7.89
$ 0.00	136,368	$ 2.20	3.11
$ 0.00	345,000	$ 5.00	4.07
	561,368		

Note 5 – Related Party Transactions

For the three months ended March 31, 2013 and 2012 and for the period from inception (January 23, 2008) to March 31, 2013, the Company paid consulting fees of $30,000, $30,000 and $329,000, respectively, to the Alternative Energy Resource Alliance, a non-profit organization whose executive director is David Goodson. In exchange, Mr. Goodson provides services as the Company's Chief Science Officer. Mr. Goodson is a director and co-founder of the Company and, through an irrevocable trust, a significant beneficial owner of the Company's common stock.

Note 6 – Commitments and Contingencies

The Company has a triple net lease for office and laboratory space for the period November 2011 to February 2017. Under the terms of the lease, the Company paid no rent for the period November 2011 to February 2012. Rent payments commenced in March 2012 and will escalate annually by 3%. The Company records monthly rent expense equal to the total of the payments over the lease term divided by the number of months of the lease term. Therefore, rent expense of $17,000 was accrued for the three months ended March 31, 2012 and for the three months ended March 31, 2013 the deferred rent was reduced by $1,000. Under the terms of the lease, the Company will also pay monthly triple net operating costs which currently approximates $2,000 per month. Minimum future payments under these leases at March 31, 2013 are as follows:

2013	$ 81,000
2014	111,000
2015	115,000
2016	118,000
2017	20,000
	$ 445,000

For the three months ended March 31, 2013 and 2012, rent expense amounted to $34,000 and $36,000, respectively.

Effective January 1, 2012, the Company entered into an Employment Agreement (the Agreement) with Richard Rutkowski, its Chief Executive Officer. Unless earlier terminated, the Agreement will continue for a term of three years. Compensation includes an annual salary of $355,000 with annual cost-of-living adjustments, annual cash and equity bonuses based on performance standards established by the Compensation Committee of the Board of Directors, medical and dental benefits for Mr. Rutkowski and his family, disability insurance, and term life insurance for the benefit of his dependents. Mr. Rutkowski's employment may be terminated by the Company without cause under certain circumstances, as defined in the Agreement. If Mr. Rutkowski's employment is terminated without cause, a severance payment would be due in the amount of compensation that would have been due had his employment not been terminated or one year of the current annual compensation, whichever is greater.

The Company has agreements with its three independent directors to compensate them annually after the Company's common stock commenced trading publicly. The obligation totals $300,000 per year of which $150,000 is to be paid with the Company's common stock at fair value.

The Company's former legal advisors, Perkins Coie LLP, previously advised the Company that they believe TWB Investment Partnership II, L.P., a party related to Perkins Coie LLP, has the right to acquire 25,250 shares of the Company's common stock at $0.02 per share pursuant to an engagement letter dated December 4, 2007. The claim was denied since, among other defenses, management believes it entered into a full settlement of all amounts owed to Perkins Coie LLP in November 2011.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION CONTAINED IN THIS REPORT

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “hopes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “would,” “should,” “could,” “may,” or other similar expressions in this report. In particular, these include statements relating to future actions, prospective products, applications, customers, technologies, future performance or results of anticipated products, expenses, and financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our limited cash and our history of losses;
- our ability to achieve profitability;
- our limited operating history;
- emerging competition and rapidly advancing technology in our industry that may outpace our technology;
- customer demand for the products and services we develop;
- the impact of competitive or alternative products, technologies and pricing;
- our ability to manufacture any products we develop;
- general economic conditions and events and the impact they may have on us and our potential customers;
- our ability to obtain adequate financing in the future;
- our ability to continue as a going concern;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in this report.

The forward-looking statements are based upon management’s beliefs and assumptions and are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements included in this report. You should not place undue reliance on these forward-looking statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q as well as our audited financial statements and related notes included in our annual report on Form 10-K. In addition to historical information, this discussion and analysis here and throughout this Form 10-Q contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements.

OVERVIEW

We are a development stage company located in Seattle, Washington. We were formed for the purpose of developing a technology that improves both the energy efficiency and emissions control characteristics of combustion systems. To date, our operations have been funded through sales of our common stock. We have earned no revenue since inception on January 23, 2008.

Plan of Operation

We are pursuing development of our technology to enable future sales. These activities entail laboratory research, where we have successfully demonstrated our proprietary technology operating in our research facility with thermal output of 1,000,000 BTUs per hour, and business development and marketing activities with established manufacturers and other entities that use boilers, burners, refinery heaters, and other combustion systems. We intend to create co-development collaborations which would enable us to work closely with established companies in specific industries to apply developed solutions in laboratory and field settings. In April 2013, we announced our intention to enter into a development agreement with Grandeg, a European manufacturer of commercial wood pellet boiler systems. Under the agreement, we will develop solutions based on our ECC technology for both retrofit into existing Grandeg biomass boilers as well as for integration into new product designs. Grandeg has indicated its intent to provide up to $500,000 in funding to support a phased initial project that is expected to begin upon execution of a definitive agreement with the goal of releasing a first commercial solution to the market during 2014. While a definitive agreement is expected to be executed by June 2013, there is no assurance that terms will be reached or a final agreement executed.

In April and May 2012, we completed an initial public offering (IPO) of our common stock whereby we sold 3,450,000 shares of common stock at $4.00 per share, which included the exercise of the underwriter's overallotment option, resulting in gross proceeds of $13.8 million and, after reflecting certain costs paid with common stock, net proceeds of $11.6 million. The net proceeds have been used as follows through March 31, 2013: approximately $6,000,000 for the purchase of short-term certificates of deposit, $624,000 increased cash and money market funds, $3,580,000 for operations, $412,000 for capital expenditures primarily related to research and development machinery and equipment, $657,000 for patents, $238,000 for the payment of accrued compensation, and $129,000 for the repayment of short term indebtedness. We anticipate that in total the net proceeds will be used as follows: $4 million for research and development including related capital expenditures, $2 million for protection of intellectual property, $1.75 million for exploration of market opportunities, and the balance for working capital and general corporate purposes. In addition, we may use a portion of the net proceeds from the IPO to acquire complementary products, technologies or businesses; however, we do not have plans for any acquisitions at this time. We expect the net proceeds from the IPO to be sufficient to fund our activities at least through April 2014. Our anticipated costs include employee salaries and benefits, compensation paid to consultants, capital costs for research and other equipment, costs associated with development activities including travel and administration, legal expenses, sales and marketing costs, general and administrative expenses, and other costs associated with an early stage, publicly-traded technology company. We anticipate increasing the number of employees by up to approximately 20-30 employees; however, this is highly dependent on the nature of our development efforts. We anticipate adding employees in the areas of research and development, sales and marketing, and general and administrative functions required to support our efforts. We expect to incur consulting expenses related to technology development and other efforts as well as legal and related expenses to protect our intellectual property. We expect capital expenditures to be between $0.5 and $1.0 million annually, but these are highly dependent on the nature of the operations where co-development activities are ongoing.

The amount that we spend for any specific purpose may vary significantly, and could depend on a number of factors including, but not limited to, the pace of progress of our commercialization and development efforts, actual needs with respect to product testing, development and research, market conditions, and changes in or revisions to our marketing strategies.

Research and development of new technologies is, by its nature, unpredictable. Although we will undertake development efforts with commercially reasonable diligence, there can be no assurance that the net proceeds from the IPO will be sufficient to enable us to develop our technology to the extent needed to create future sales to sustain operations. If the net proceeds from the IPO are insufficient for this purpose, we will consider other options to continue our path to commercialization, including, but not limited to: additional financing through follow-on stock offerings, debt financing, co-development agreements, sale or licensing of developed intellectual or other property, or other alternatives.

If management is unable to implement its proposed business plan or employ alternative financing strategies, it does not presently have any alternative proposals. In that case, we may be required to scale back our development plans by reducing expenditures for employees, consultants, business development and marketing efforts, and other envisioned expenditures or curtail or even suspend our operations.

We cannot assure that our technology will be accepted, that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. Furthermore, we have no committed source of financing and we cannot assure that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to severely curtail, or even to cease, our operations.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. See Note 2 to our unaudited condensed financial statements for a more complete description of our significant accounting policies.

Development Stage Enterprise. The Company is a development stage company as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 915, *Development Stage Entities*. The Company is devoting substantially all of its present efforts to design and develop new technologies in combustion systems and its planned principal operations have not yet commenced. The Company has not generated any revenues from operations and has no assurance of any future revenues. All losses accumulated since January 23, 2008 have been considered as part of the Company's development stage activities.

Research and Development. The cost of research and development is expensed as incurred. Research and development costs consist of salaries, benefits, share based compensation, consulting fees, rent, utilities, depreciation, and consumables.

Stock-Based Compensation. The costs of all employee stock options, as well as other equity-based compensation arrangements, are reflected in the financial statements based on the estimated fair value of the awards on the grant date. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Stock compensation for stock granted to non-employees is determined as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

Fair Value of Financial Instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of cash and cash equivalents, accounts payable and accrued expenses. As of the balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheets. This is primarily attributed to the short maturities of these instruments. The Company did not identify any other non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value.

RESULTS OF OPERATIONS

Comparison of the Three Months Ending March 31, 2013 and 2012

Operating Expenses. Operating expenses, consisting of research and development (R&D) and general and administrative (G&A) expenses, increased by approximately $497,000 to $1,361,000 for the three months ended March 31, 2013, referred to herein as Q1 2013, compared to the same period in 2012 (Q1 2012). The Company increased its R&D expenses by $194,000 to $458,000 for Q1 2013. R&D expenses rose primarily due to increased compensation of $143,000 related to increased personnel levels and $35,000 of increased depreciation expense. G&A expenses increased by $303,000 to $903,000 in Q1 2013 resulting primarily from the expense of operating as a public company, which totaled $296,000 in Q1 2013.

Loss from Operations. Due to the increase in operating expenses, our loss from operations increased during Q1 2013 by approximately $497,000 to $1,361,000.

Net Loss. Primarily as a result of the increase in operating expenses, our net loss for Q1 2013 was approximately $1,357,000 as compared to a net loss of $865,000 for Q1 2012, resulting in an increased net loss of $492,000.

Liquidity and Capital Resources

At March 31, 2013, our cash and cash equivalent balance totaled $6,655,000 compared to $8,027,000 at December 31, 2012. We expect this sum to be sufficient to fund our activities at least through April 2014. Although we are pursuing co-development agreements, there is no assurance that they will be adequate to fund our operations and to commercialize our technology. To the extent co-development agreement funding is insufficient to raise adequate funds, we may undertake offerings of our securities, debt financing, selling or licensing our developed intellectual or other property, or other alternatives. In that regard, the Company filed a Form S-3 shelf registration with the Securities and Exchange Commission (SEC) on May 6, 2013 that, once declared effective by the SEC, will allow the Company to issue up to an aggregate of thirty million dollars of common stock, preferred stock or warrants from time to time as market conditions permit. This equity funding would be used to enable further investment in our technology and product development and to maintain a strong balance sheet as we pursue strategic joint development and marketing relationships and prepare to pursue significant opportunities in various segments of the market. This information does not constitute an offer of any securities for sale.

At March 31, 2013, our current assets were in excess of current liabilities resulting in working capital of $6,223,000 compared to $7,643,000 at December 31, 2012.

Operating activities for the three months ended March 31, 2013 resulted in cash outflows of $1,069,000 which were due primarily to the loss for the period of $1,357,000, offset by net changes in working capital, exclusive of cash, of $161,000 related to an increase in accrued compensation, services paid with common stock and stock options of $76,000, and other non-cash expenses of $42,000. Operating cash outflows for the three months ended March 31, 2012 of $621,000 were primarily due to the loss for the period of $865,000, offset by net changes in working capital, exclusive of cash, of $147,000 related to capitalized costs associated with our IPO, $66,000 of services paid with common stock and stock options, and other non-cash expenses of $31,000.

Investing activities for the three months ended March 31, 2013 resulted in cash outflows of $303,000 for acquisition of fixed assets and development of patents and other intangible assets. Investing activities for the three months ended March 31, 2012 resulted in cash outflows of approximately $54,000 for acquisition of fixed assets and development of patents and other intangible assets.

Financing activities for the three months ended March 31, 2013 and 2012 were immaterial.

Off-Balance Sheet Transactions

We do not have any off-balance sheet transactions.

Trends, Events and Uncertainties

Our former legal advisors, Perkins Coie LLP, previously advised us that they believe TWB Investment Partnership II, L.P., a party related to Perkins Coie LLP, has the right to acquire 25,250 shares of our common stock at $0.02 per share pursuant to an engagement letter dated December 4, 2007. We denied the claim since, among other defenses, we believe we entered into a full settlement of all amounts owed to Perkins Coie LLP in November 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has concluded that, as of March 31, 2013, our disclosure controls and procedures are effective.

There have been no material changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

We incorporate herein by reference the risk factors included under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 which we filed with the Securities and Exchange Commission on February 22, 2013.

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

In November 2011 we filed a registration statement, number 333-177946, with the Securities and Exchange Commission to register an offering of 3 million shares of our common stock, with an option granted to the underwriter to sell an additional 450,000 shares of our common stock (the "overallotment"). The registration statement was declared effective on April 24, 2012. The offering closed on April 30, 2012 and the offering of the overallotment closed on May 15, 2012. The common stock was offered at a price of $4.00 per share. All of the shares of common stock, including the overallotment, were sold. We raised a total of $13,800,000 in gross proceeds in the offering and received approximately $11,200,000 after expenses. Through March 31, 2013, the net proceeds from the offering were used as follows: approximately $6,000,000 for the purchase of short-term certificates of deposit, $624,000 increased cash and money market funds, $3,580,000 for operations, $412,000 for capital expenditures primarily related to research and development machinery and equipment, $657,000 for patents, $238,000 for the payment of accrued compensation, and $129,000 for the repayment of short term indebtedness. None of the proceeds were used for construction of plant, building and facilities, the purchase of real estate, or the acquisition of any business.

We anticipate that the $11.2 million of net proceeds will be used as follows: approximately $4 million for research and development including related capital expenditures, $2 million for protection of intellectual property, $1.75 million for exploration of market opportunities, and the balance for working capital and general corporate purposes. We expect this to be sufficient to fund our activities at least through April 2014.

On May 2, 2013, we issued 11,250 shares of common stock having a value of $103,000 to John McFarland, an investor relations consultant, in exchange for services rendered and to be rendered in 2013. We relied on Section 4(2) of the Securities Act of 1933 (the "Act") in issuing the common stock inasmuch as there was no form of general solicitation or general advertising in the offer and sale of the securities and we provided to Mr. McFarland access to the information that registration would otherwise provide.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Approval of the 2013 Consultant Stock Plan

On May 2, 2013, the Company's shareholders approved the C1earSign Combustion Corporation 2013 Consultant Stock Plan (the "Plan"), to be administered by the Compensation Committee of the Company's Board of Directors. The Plan authorizes the issuance of up to 75,000 shares of the Company's Common Stock to individuals providing the Company with consulting services.

The above description of the Plan is qualified in its entirety by the terms and conditions of the Plan attached hereto as Exhibit 10.1.

ITEM 6. EXHIBITS

Exhibit Number	Document
3.1	Articles of Incorporation of ClearSign Combustion Corporation, amended on February 2, 2011 (1)
3.1.1	Articles of Amendment to Articles of Incorporation of ClearSign Combustion Corporation filed on December 22, 2011 (1)
3.2	Bylaws (1)
10.1	ClearSign Combustion Corporation 2013 Consultant Stock Plan*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer*
101	The following financial statements from the registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013, formatted in XBRL: (i) Condensed Balance Sheets (Unaudited); (ii) Condensed Statements of Operations (Unaudited); (iii) Condensed Statement of Stockholders' Equity (Unaudited); (iv) Condensed Statements of Cash Flows (Unaudited); (v) Notes to Unaudited Condensed Financial Statements.*

*Filed herewith

(1) Incorporated by reference from the registrant's registration statement on Form S-1, as amended, file number 333-177946, originally filed with the Securities and Exchange Commission on November 14, 2011.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLEARSIGN COMBUSTION CORPORATION
(Registrant)

Date: May 6, 2013

By: /s/ Richard F. Rutkowski
Richard F. Rutkowski
Chief Executive Officer

By: /s/ James N. Harmon
James N. Harmon
Chief Financial Officer

CLEARSIGN COMBUSTION CORPORATION

2013 CONSULTANT STOCK PLAN

ClearSign Combustion Corporation, a corporation organized under the laws of the State of Washington, hereby adopts this 2013 Consultant Stock Plan.

PURPOSE OF PLAN

WHEREAS, the purpose of this 2013 Consultant Stock Plan is to advance the interests of the ClearSign Combustion Corporation by helping the Company obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services the Company is substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of capital stock of ClearSign Combustion Corporation.

TERMS AND CONDITIONS OF PLAN

1. DEFINITIONS.

Set forth below are definitions of capitalized terms which are generally used throughout this Plan, or references to provisions containing such definitions:

(a) Affiliate - The term "Affiliate" is defined as any person controlling the Company, controlled by the Company, or under common control with the Company.

(b) Award - The term "Award" is defined as any Award Shares granted under this Plan.

(c) Award Shares - The term "Award Shares" is defined as shares of Common Stock granted by the Plan Committee in accordance with Section 5 of this Plan.

(d) Board - The term "Board" is defined as the Board of Directors of the Company, as such body may be reconstituted from time to time.

(e) Common Stock - The term "Common Stock" is defined as the Company's common stock, par value $0.0001.

(f) Company - The term "Company" is defined as ClearSign Combustion Corporation.

(g) Eligible Person - The term "Eligible Person" means any Person who, at a particular time, is a consultant to the Company or an Affiliate who provides bona fide consulting services to the Company or the Affiliate, including services rendered in connection with the raising of capital, investor relations or stock promotional activities. No officer, director or employee of the Company is or can be an Eligible Person.

(h) Fair Market Value - The term "Fair Market Value" means the fair market value as of the applicable valuation date of the Award Shares or other shares of Common Stock, as the case may be, to be valued (the "Subject Shares"), determined in accordance with the following principles:

(i) If the Common Stock is traded on a stock exchange on the date in question, then the Fair Market Value of the Subject Shares will be equal to the closing sale price of Common Stock on the principal exchange on which the Common Stock is then trading, or, if Common Stock is not traded on such date, then on the next preceding trading day during which a sale occurred;

(ii) If the Common Stock is traded over-the-counter on the date in question, then the Fair Market Value of the Subject Shares will equal the last sales price or the average of the closing bid and asked price (in all other cases) for the Common Stock on such date as reported by the over-the-counter quotation system;

(iii) If the Common Stock is not publicly traded on an exchange and is not quoted on the over-the-counter quotation system, then the Fair Market Value shall be determined by the Board acting in good faith on such basis as it deems appropriate;

(iv) If the Subject Shares are subject to conditions, risk of forfeiture, or repurchase rights or rights of first refusal which impair their value including, without limitation, those conditions more particularly described in Section 6, then the Fair Market Value of the Subject Shares shall be subject to such discount to reflect such impairments to value as the Plan Committee may, in its sole discretion and without obligation to do so, determine to be appropriate; and

(v) Anything in Subsections (i) through (iv) above to the contrary, in no circumstances shall the Fair Market Value of the Subject Shares be less than its par value.

(i) Issued Shares - The term "Issued Shares" is defined as shares of Common Stock issued pursuant to the terms of this Plan.

(j) Person - The term "Person" is defined, in its broadest sense, as any individual, entity or fiduciary such as, by way of example and not limitation, individuals or natural persons, corporations, partnerships (limited or general), joint-ventures, associations, limited liability companies/partnerships, or fiduciary arrangements, such as trusts.

(k) Plan - The term "Plan" is defined as this 2013 Consultant Stock Plan.

(l) Plan Committee - The term "Plan Committee" is defined in Section 3 of the Plan; *provided, however,* that the term Plan Committee will refer to the Board during such times as no Plan Committee is appointed by the Board.

(m) Restricted Shares - The term "Restricted Shares" is defined as Award Shares that are subject to restrictions as more particularly set forth in Section 6 of this Plan.

(n) Recipient - The term "Recipient" is defined as any Eligible Person who, at a particular time, receives the grant of an Award.

(o) Securities Act - The term "Securities Act" is defined as the Securities Act of 1933, as amended.

2. TERM OF PLAN.

This Plan shall be effective as of such time and date as this Plan is adopted by the Board and shall continue until the Plan is terminated in accordance with Section 10(a) below; provided, however, that the provisions of this Plan shall remain in effect until the terms of all outstanding Awards have been satisfied or terminated in accordance with this Plan and the terms of such Awards.

3. PLAN ADMINISTRATION.

The Plan shall be administered and interpreted by the Compensation Committee of the Board (the "Plan Committee"), provided, however, if there is no Compensation Committee of the Board, the Board itself will administer and interpret the Plan and take such other actions as the Plan Committee is authorized to take hereunder. The Plan Committee shall have the full and final authority in its sole discretion, at any time and from time-to-time, subject only to the express terms, conditions and other provisions of the Certificate of Incorporation of the Company and this Plan, and the specific limitations on such discretion set forth herein, to:

(i) Designate the Eligible Persons or classes of Eligible Persons eligible to receive Awards from among the Eligible Persons;

(ii) Grant Awards to such selected Eligible Persons or classes of Eligible Persons in such form and amount (subject to the terms of the Plan) as the Plan Committee shall determine;

(iii) Impose such limitations, restrictions and conditions upon any Award as the Plan Committee shall deem appropriate and necessary including, without limitation, any vesting conditions described in Section 6 placed upon grants of Award Shares;

(iv) Interpret the Plan, adopt, amend and rescind rules and regulations relating to the Plan, and make all other determinations and take all other action necessary or advisable for the implementation and administration of the Plan; the interpretations and determinations of the Plan Committee under the Plan (including without limitation determinations pertaining to the eligibility of Persons to receive Awards, the form, amount and timing of Awards, the methods of payment for Awards, the restrictions and conditions placed upon Awards, and the other terms and provisions of Awards and the certificates or agreements evidencing same) need not be uniform and may be made by the Plan Committee selectively among Persons who receive, or are eligible to receive, Awards under the Plan, whether or not such Persons are similarly situated; and

(v) Delegate all or a portion of its authority under subsections (i) through (iii) of this Section 3 to one or more directors of the Company who are executive officers of the Company, subject to such restrictions and limitations (such as the aggregate number of shares of Common Stock that may be awarded) as the Plan Committee may decide to impose on such delegate directors.

In determining the recipient, form and amount of Awards, the Plan Committee shall consider any factors deemed relevant, including the individual's functions, responsibilities, value of services to the Company and past and potential contributions to the Company's profitability and sound growth.

All actions taken and all interpretations and determinations made under this Plan in good faith by the Plan Committee shall be final and binding upon the Recipient, the Company, and all other interested Persons. No member of the Plan Committee shall be personally liable for any action taken or decision made in good faith relating to this Plan, and all members of the Plan Committee shall be fully protected and indemnified to the fullest extent permitted under applicable law by the Company in respect to any such action, determination, or interpretation.

4. STOCK AVAILABLE FOR AWARDS.

(a) Number of Shares Available for Awards. Shares of stock which may be issued or granted under the Plan shall be authorized and unissued or treasury shares of Common Stock. The aggregate maximum number of shares of Common Stock which may be issued as grants of Award Shares shall not exceed 75,000 shares of Common Stock; *provided, however,* that such number shall be increased by any Restricted Shares which are granted and are subsequently forfeited by the holders thereof.

(b) Increase in Number of Shares Available. The maximum aggregate number of Shares that may be granted under the Plan will be increased effective the first day of each of the Company’s fiscal quarters, beginning with the fiscal quarter commencing April 1, 2013, (the “Adjustment Date”) by an amount equal to the lesser of:

(i) one percent (1%) of the difference between the number of shares of Common Stock outstanding on the applicable Adjustment Date and the number of shares of Common Stock outstanding at the beginning of the fiscal quarter immediately preceding the Adjustment Date; or

(ii) such lesser number of Shares as may be determined by the Board.

5. AWARD SHARES.

(a) Grant. The Plan Committee may from time to time, and subject to the provision of the Plan and such other terms and conditions as the Plan Committee may prescribe, grant to any Eligible Person one or more shares of Common Stock ("Award Shares") allotted by the Plan Committee. The grant of Award Shares or grant of the right to receive Award Shares shall be evidenced by either a written consulting agreement or a separate written agreement confirming such grant, executed by the Company and the Recipient, stating the number of Award Shares granted and stating all terms and conditions of such grant.

(b) Purchase Price and Manner of Payment. The Plan Committee, in its sole discretion, may grant Award Shares in any of the following instances:

(vi) as a "bonus" or "reward" for services previously rendered and compensated, in which case the recipient of the Award Shares shall not be required to pay any consideration for such Award Shares, and the value of such Award Shares shall be the Fair Market Value of such Award Shares on the date of grant; and

(vii) as "compensation" for the previous performance or future performance of services or attainment of goals, in which case the recipient of the Award Shares shall not be required to pay any consideration for such Award Shares (other than the performance of his services), and the value of such Award Shares received (together with the value of such services or attainment of goals attained by the Recipient), shall be the Fair Market Value of such Award Shares on the date of grant.

6. RESTRICTED SHARES.

(a) Vesting Conditions; Forfeiture of Unvested Shares. The Plan Committee may subject or condition the grant of Issued Shares (hereinafter referred to as "Restricted Shares") to such vesting conditions based upon continued provision of services or attainment of goals subsequent to such grant of Restricted Shares as the Plan Committee, in its sole discretion, may deem appropriate. In the event the Recipient does not satisfy such vesting conditions, the Company may require the Recipient to forfeit such unvested Restricted Shares. All vesting conditions imposed on the grant of Restricted Shares shall be set forth in either a written consulting agreement or a separate written restricted stock agreement, executed by the Company and the Recipient on or before the time of the grant of such Restricted Shares, stating the number of said Restricted Shares subject to such conditions and further specifying the vesting conditions. If no vesting conditions are expressly provided in the underlying consulting agreement or in a separate restricted stock agreement, the Issued Shares shall not be deemed to be Restricted Shares, and will not be required to be forfeited. Any grant of Restricted Shares shall be subject to the following limitations:

(i) In no case shall such vesting conditions require continued provision of services or attainment of goals, as the case may be, subsequent to the grant of Restricted Shares, for a period of time which exceeds 5 years from the date of grant, or on a cumulative incremental percentage basis which is less than 20% per year; and

(ii) In no case shall the Recipient be required to forfeit any vested Restricted Shares.

(b) Restrictive Legend. Until such time as all conditions placed upon Restricted Shares lapse, the Plan Committee may place a restrictive legend on the share certificate representing such Restricted Shares which evidences said restrictions in such form and subject to such stop instructions as the Plan Committee shall deem appropriate. The conditions shall similarly apply to any new, additional or different securities the Recipient may become entitled to receive with respect to such Restricted Shares by virtue of a stock split or stock dividend or any other change in the corporate or capital structure of the Company. The Plan Committee shall also have the right, should it elect to do so, to require the Recipient to deposit the share certificate for the Restricted Shares with the Company or its agent, endorsed in blank or accompanied by a duly executed irrevocable stock power or other instrument of transfer, until such time as the conditions lapse. The Company shall remove the legend with respect to any Restricted Shares which become vested.

(c) Stockholder Rights. The Recipient of Restricted Shares shall have all rights or privileges of a stockholder of the Company with respect to the Restricted Shares notwithstanding the terms of this Section 6 and, as such, shall be fully entitled to receive dividends (if any are declared and paid), to vote and to exercise all other rights of a stockholder with respect to the Restricted Shares.

7. REGISTRATION OF ISSUED SHARES.

(a) Registration or Exemption from Registration. Unless expressly stipulated in the underlying consulting agreement or other separate agreement, in no event shall the Company be required at any time to register the Issued Shares under the Securities Act or to register or qualify the Issued Shares under the securities laws of any state or territory. In the event the Company is not required to register or qualify the Issued Shares, the Issued Shares shall be issued in reliance upon such exemptions from registration or qualification under federal and state securities laws, as the case may be, that the Company and its legal counsel, in their reasonable discretion, shall determine to be appropriate.

If requested by the Company, the Recipient shall provide such further representations or documents as the Company or its legal counsel, in their reasonable discretion, deem necessary or advisable in order to effect compliance with the conditions of the exemptions from federal or state registration or qualification which it is relying upon, or with all applicable rules and regulations of any applicable securities exchanges.

In the event the Company is unable to obtain, without undue burden or expense, such consents or approvals that may be required from any applicable regulatory authority (or may be deemed reasonably necessary or advisable by legal counsel for the Company) with respect to the applicable exemptions from federal or state registration or qualification which the Company is reasonably relying upon, the Company shall have no obligation under this Agreement to issue or sell the Issued Shares until such time as such consents or approvals may be reasonably obtained without undue burden or expense, and the Company shall be relieved of all liability with respect to its inability to issue or sell the Issued Shares.

(b) Legend. In the event the Company delivers unregistered shares, the Company reserves the right to place a restricted legend on the share certificate or certificates to comply with the Securities Act and any state and territory securities laws or any exemption from registration or qualification thereunder which is being relied upon by the Company.

8. ADJUSTMENTS.

(a) Subdivision or Stock Dividend. If outstanding shares of Common Stock shall be subdivided into a greater number of shares by reason of recapitalization or reclassification, the number of shares of Common Stock, if any, available for issuance under the Plan or subject to an Award shall, simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend, be proportionately increased, and conversely, if the outstanding shares of Common Stock shall be combined into a smaller number of shares, the number of shares of Common Stock, if any, available for issuance under the Plan or subject to an Award shall, simultaneously with the effectiveness of such combination, be proportionately decreased.

(b) Adjustments Determined in Sole Discretion of Board. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Plan Committee, whose determination in that respect shall be final, binding and conclusive.

(c) No Other Rights to Recipient. Except as expressly provided in this Section 8, (i) the Recipient shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, and (ii) the dissolution, liquidation, merger, consolidation or divisive reorganization or sale of assets or stock to another corporation, or any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares. The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

9. <u>PERFORMANCE ON BUSINESS DAY</u>.

In the event the date on which a party to this Plan is required to take any action under the terms of this Plan is not a business day, the action shall, unless otherwise provided herein, be deemed to be required to be taken on the next succeeding business day.

10. <u>AMENDMENT AND DISCONTINUATION OF PLAN; MODIFICATION OF AWARDS</u>.

(a) <u>Amendment, Modification or Termination of Plan</u>. With the approval of the shareholders, the Board may amend the Plan. The Board may suspend or discontinue the Plan at any time or from time-to-time; *provided, however* no such action may adversely alter or impair any Award previously granted under this Plan without the consent of the Recipient affected thereby.

(b) <u>Modification of Restricted Share Vesting Conditions</u>. Subject to the terms and conditions and within the limitations of this Plan, including vesting conditions, the Plan Committee may modify the conditions placed upon the grant of any Restricted Shares, *provided, however,* no modification of any conditions placed upon Restricted Shares may, without the consent of the Recipient thereof, adversely alter or impair such Recipient's rights with respect to such Restricted Shares.

(c) <u>Compliance with Laws</u>. The Plan Committee may at any time or from time-to-time, without receiving further consideration from any Person who may become entitled to receive or who has received the grant of an Award hereunder, modify or amend Awards granted under this Plan as required to comport with changes in securities, tax or other laws or rules, regulations or regulatory interpretations thereof applicable to this Plan or Awards thereunder or to comply with stock exchange rules or requirements, *provided, however,* that no such modification may, without the consent of the holder thereof, adversely alter or impair his or her rights with respect to such Award Shares.

Exhibit 31.1

CERTIFICATION

I, Richard F. Rutkowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ClearSign Combustion Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2013

/s/ Richard F. Rutkowski
Richard F. Rutkowski
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, James N. Harmon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ClearSign Combustion Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2013

/s/ James N. Harmon
James N. Harmon
Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION

In connection with the periodic report of ClearSign Combustion Corporation (the “Company”) on Form 10-Q for the three months ending March 31, 2013 as filed with the Securities and Exchange Commission (the “Report”), we, Richard F. Rutkowski, Chief Executive Officer (Principal Executive Officer) and James N. Harmon, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 6, 2013

/s/ Richard F. Rutkowski
Richard F. Rutkowski
Chief Executive Officer (Principal Executive Officer)

/s/ James N. Harmon
James N. Harmon
Chief Financial Officer (Principal Financial and Accounting Officer)