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ADA-ES INC  
Form 10-Q  
May 13, 2010

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, 2010**

or

**TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE EXCHANGE ACT OF 1934**

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

Commission File Number: 000-50216

**ADA-ES, INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of incorporation or organization)

**84-1457385**

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

**8100 SouthPark Way, B, Littleton, Colorado**

(Address of principal executive offices)

**80120**

(Zip Code)

**(303) 734-1727**

(Registrant's telephone number, including area code)

**Not Applicable**

(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 that the registrant was required to submit and post such files). Yes  No

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING

FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, no par value

Outstanding at April 30, 2010  
7,410,976

## PART I - FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements (for March 31, 2010 one entity included as a subsidiary as of March 31, 2009 was deconsolidated (see Note 2)).**

## ADA-ES, Inc. and Subsidiaries

## Consolidated Balance Sheets

*(Amounts in thousands, except share data)*

	March 31, 2010 (Unaudited)	December 31, 2009
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,125	\$ 1,456
Trade receivables, net of allowance for doubtful accounts	3,880	5,812
Certificate of deposit	400	400
Assets held for sale	2,513	1,987
Prepaid expenses and other	605	1,182
Total current assets	9,523	10,837
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b>	<b>3,152</b>	<b>3,100</b>
Less accumulated depreciation and amortization	(2,388)	(2,252)
Net property, plant and equipment	764	848
<b>GOODWILL, net of amortization</b>	<b>435</b>	<b>435</b>
<b>INTANGIBLE ASSETS, net of amortization</b>	<b>232</b>	<b>229</b>
<b>INVESTMENT IN ADA CARBON SOLUTIONS, LLC ( CARBON SOLUTIONS )</b>	<b>20,595</b>	<b>21,776</b>
<b>DEFERRED TAXES AND OTHER ASSETS</b>	<b>8,460</b>	<b>6,842</b>
<b>TOTAL ASSETS</b>	<b>\$ 40,009</b>	<b>\$ 40,967</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,175	\$ 5,312
Accrued payroll and related liabilities	681	578
Deferred revenue	845	1,452
Accrued expenses and other liabilities	1,263	1,306
Total current liabilities	6,964	8,648
<b>LONG-TERM LIABILITIES:</b>		
Accrued liabilities	8,577	6,822
Accrued warranty and other	761	1,146
Total liabilities	16,302	16,616

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**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS EQUITY:**

ADA-ES, Inc. stockholders equity		
Preferred stock; 50,000,000 shares authorized, none outstanding	0	0
Common stock; no par value, 50,000,000 shares authorized, 7,410,976 and 7,093,931 shares issued and outstanding	38,802	37,000
Accumulated deficit	(15,568)	(12,748)
Total ADA-ES, Inc. stockholders equity	23,234	24,252
Non-controlling interests	473	99
<b>TOTAL STOCKHOLDERS EQUITY</b>	23,707	24,351
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	\$ 40,009	\$ 40,967

See accompanying notes.

## ADA-ES, Inc. and Subsidiaries

## Consolidated Statements of Operations

*(Amounts in thousands)***(Unaudited)**

	<b>For the Quarter Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUE:</b>		
Emissions control (see note 2)	\$ 3,064	\$ 4,606
CO <sub>2</sub> capture	803	261
Refined coal	0	0
<b>Total revenues</b>	<b>3,867</b>	<b>4,867</b>
<b>COST OF REVENUES:</b>		
Emissions control (see note 2)	1,822	2,702
CO <sub>2</sub> capture	264	109
Refined coal	426	12
<b>Total cost of revenues</b>	<b>2,512</b>	<b>2,823</b>
<b>GROSS MARGIN</b>	<b>1,355</b>	<b>2,044</b>
<b>OTHER COSTS AND EXPENSES:</b>		
General and administrative	4,579	3,184
Research and development	184	218
Depreciation and amortization	209	157
<b>Total expenses</b>	<b>4,972</b>	<b>3,559</b>
<b>OPERATING LOSS</b>	<b>(3,617)</b>	<b>(1,515)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Equity in net loss of Carbon Solutions (see note 2 )	(1,181)	0
Interest and other income	19	33
<b>LOSS BEFORE INCOME TAX PROVISION AND NON-CONTROLLING INTERESTS</b>	<b>(4,779)</b>	<b>(1,482)</b>
<b>INCOME TAX BENEFIT</b>	<b>1,613</b>	<b>315</b>
<b>NET LOSS BEFORE NON-CONTROLLING INTERESTS</b>	<b>(3,166)</b>	<b>(1,167)</b>
Net loss attributable to non-controlling interests	346	624

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<b>NET LOSS ATTRIBUTABLE TO ADA</b>	\$ (2,820)	\$ (543)
<b>NET LOSS PER COMMON SHARE - BASIC AND DILUTED ATTRIBUTABLE TO ADA</b>	\$ (0.39)	\$ (0.08)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	7,194	6,869
<b>WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING</b>	7,194	6,869

See accompanying notes.

## ADA-ES, Inc. and Subsidiaries

## Consolidated Statements of Changes in Stockholders Equity

For the Quarter Ended March 31, 2010 and 2009

*(Amounts in thousands, except share data)***(Unaudited)**

	COMMON STOCK			ACCUMULATED DEFICIT	TOTAL ADA-ES, INC. STOCKHOLDERS EQUITY	NON- CONTROLLING INTERESTS	TOTAL EQUITY
	SHARES	AMOUNT					
<b>BALANCES, January 1, 2009</b>	6,755,932	\$ 35,812	\$ (3,977)	\$ 31,835	\$ 25,152	\$ 56,987	
Stock-based compensation	137,945	461	0	461	0	461	
Equity contributions	0	0	0	0	26,358	26,358	
Net loss	0	0	(543)	(543)	(624)	(1,167)	
<b>BALANCES, March 31, 2009</b>	6,893,877	\$ 36,273	\$ (4,520)	\$ 31,753	\$ 50,886	\$ 82,639	
<b>BALANCES, January 1, 2010</b>	7,093,931	\$ 37,000	\$ (12,748)	\$ 24,252	\$ 99	\$ 24,351	
Stock-based compensation	173,160	809	0	809	0	809	
Issuance of stock for cash	143,885	1,000	0	1,000	0	1,000	
Expense of stock sale	0	(7)	0	(7)	0	(7)	
Equity contributions	0	0	0	0	720	720	
Net loss	0	0	(2,820)	(2,820)	(346)	(3,166)	
<b>BALANCES, March 31, 2010</b>	7,410,976	\$ 38,802	\$ (15,568)	\$ 23,234	\$ 473	\$ 23,707	

See accompanying notes.

## ADA-ES, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	For the Quarter Ended March 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,820)	\$ (543)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	139	157
Loss on asset dispositions and securities	0	24
Deferred tax benefit	(1,618)	(316)
Expenses paid with stock and stock options	396	461
Equity in loss of Carbon Solutions	1,181	0
Non-controlling interests in losses of subsidiaries	(346)	(624)
Changes in operating assets and liabilities:		
Trade receivables, net	1,932	(328)
Inventory	0	(173)
Assets held for sale	(526)	0
Prepaid expenses and other	577	16
Accounts payable	(1,137)	(173)
Accrued expenses	(43)	(264)
Deferred revenue and other	1,279	(386)
Net cash used in operating activities	(986)	(2,149)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures for equipment and other assets	(58)	(23,623)
Investment in certificate of deposit	0	(400)
Net cash used in investing activities	(58)	(24,023)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Equity investments in joint ventures by non-controlling interest	720	26,358
Issuance of common stock	1,000	0
Expenses related to the issuance of common stock	(7)	0
Other financing agreement	0	(9)
Net cash provided by financing activities	1,713	26,349
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>669</b>	<b>177</b>
CASH AND CASH EQUIVALENTS, beginning of period	1,456	28,201
CASH AND CASH EQUIVALENTS, end of period	\$ 2,125	\$ 28,378
<b>SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:</b>		
Accrued capital expenditures	\$ 0	\$ 11,360
Stock and stock options issued for services	\$ 809	\$ 461



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See accompanying notes.

**ADA-ES, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**March 31, 2010**

**(1) Basis of Presentation**

ADA-ES, Inc. ( ADA ), its wholly-owned subsidiary, ADA Environmental Solutions, LLC ( ADA LLC ) and ADA 's 50% joint venture interest in Clean Coal Solutions, LLC and its subsidiaries ( Clean Coal ), are collectively referred to as the Company . Our Company is principally engaged in providing environmental technologies and specialty chemicals to the coal-burning utility industry. Our Company generates a substantial part of its revenue from the sale of emissions control systems including Activated Carbon Injection ( ACI ) systems and contracts co-funded by the government and industry. Our sales occur principally throughout the United States. As described in note 2, below, the accounts of ADA Carbon Solutions, LLC ( Carbon Solutions ) were consolidated in the Company 's financial statements as of March 31, 2009 and for the three months then ended.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The consolidated financial statements include the financial statements of ADA and its subsidiaries, ADA LLC and Clean Coal. We have eliminated all significant intercompany balances and transactions in consolidation.

In the opinion of management, the consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

These statements should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make 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.

**(2) Equity Investment in Unconsolidated Entity**

On October 1, 2008, the Company entered into a Joint Development Agreement ( JDA ) and formed a joint venture with Energy Capital Partners I, LP and its affiliated funds ( ECP ) known as Carbon Solutions. As of March 31, 2010, ADA owned a 32% interest in Carbon Solutions. Carbon Solutions includes its wholly-owned subsidiaries of Red River Environmental Products, LLC ( Red River ), Five Forks Mining, LLC, Morton Environmental Products, LLC, Underwood Environmental Products, LLC, and Crowfoot Supply Company, LLC ( Crowfoot Supply ). Our net investment of \$20.6 million as of March 31, 2010 in Carbon Solutions is accounted for under the equity method of accounting. Accordingly, the Company 's equity in the net loss of Carbon Solutions for the three months ended March 31, 2010 has been recognized in other income (expense) in the consolidated statement of operations and our investment in Carbon Solutions has been reduced by our respective share of such loss. Carbon Solutions is principally engaged in development activities related to its activated carbon ( AC ) business and construction of an AC manufacturing facility (the AC Facility ).

At March 31, 2009, the Company controlled Carbon Solutions through its 50% ownership interest, and consolidated Carbon Solutions with the accounts of the Company in its financial statements for the three months then ended. Accordingly, the Company did not recognize any equity in the loss of Carbon Solutions for the three months then ended. Included in the emissions control segment are sales of AC totaling \$390,000 and related cost of revenues totaling \$503,000 for the three months then ended.

As of June 30, 2009, the Company deconsolidated Carbon Solutions as the Company no longer held a controlling 50% interest in Carbon Solutions as our joint venture partner converted a portion of its preferred equity contribution to ordinary capital contributions as of that date. Additional preferred equity contributions have been converted since that time and accordingly, our interest has been decreased to 32%. After the

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deconsolidation and since June 30, 2009, the Company has accounted for the investment in Carbon Solutions under the equity method.

The Company provides certain services to Carbon Solutions under a Master Services Agreement ( MSA ). Service revenue under the MSA totaled \$112,000 for the three months ended March 31, 2010 which are also included in emissions control revenues in the accompanying consolidated statement of operations. Additionally, Red River has contracted the Company to engineer and construct an ACI system for use at Red River's AC Facility. Revenues under this contract totaled \$197,000 for the three months ended March 31, 2010 and are included in emissions control revenues in the accompanying consolidated statement of operations. At March 31, 2010, \$184,000 was due from Carbon Solutions, which amount is included in the Company's consolidated balance sheet in trade receivables.

Under the terms of the JDA, the Company is required to indemnify ECP and Carbon Solutions for certain damages and expenses they have incurred with respect to the Company's litigation with Norit Americas, Inc. ( Norit ). As of March 31, 2010, the Company has recorded a liability to Carbon Solutions of approximately \$8.6 million related to such damages and expenses recorded by Carbon Solutions. These amounts have been classified as non-current liabilities as the Company expects to satisfy the obligation through resources not involving current assets.

Following is unaudited summarized information as to the assets, liabilities and results of operations of Carbon Solutions:

	<b>As of March 31, 2010</b>	<b>As of December 31, 2009</b>
	<i>(In thousands)</i>	
Current assets	\$ 37,331	\$ 29,029
Property, equipment and other long term assets	288,726	230,588
<b>Total assets</b>	<b>\$ 326,057</b>	<b>\$ 259,617</b>
Total liabilities	\$ 164,757	\$ 95,680

	<b>Three Months Ended March 31, 2010</b>	<b>Three Months Ended March 31, 2009</b>
	<i>(In thousands)</i>	
Net revenue	\$ 5,091	\$ 390
Net loss	\$ (3,679)	\$ (1,226)

As of March 31, 2010, a demand note payable to ECP for monies advanced in the amount of \$138.6 million is included in Carbon Solutions liabilities. See Note 7.

**(3) Net Loss Per Share**

Basic loss per share is computed based on the weighted average common shares outstanding in the period. Diluted income per share is computed based on the weighted average common shares outstanding in the period and the effect of dilutive securities (stock options and awards) except where the inclusion is anti-dilutive.

All outstanding stock options (see Note 6) to purchase shares of common stock for the quarters ended March 31, 2010 and 2009 were excluded from the calculation of diluted shares as their effect is anti-dilutive.

**(4) Property, Plant and Equipment**

Property, plant and equipment consisted of the following at the dates indicated:

	Life in years	As of March 31, 2010	As of December 31, 2009
			<i>(In thousands)</i>
Machinery and equipment	3-10	\$ 2,398	\$ 2,346
Leasehold improvements	.5	504	504
Furniture and fixtures	3-7	250	250
		3,152	3,100
Less accumulated depreciation and amortization		(2,388)	(2,252)
Total property, plant and equipment, net		\$ 764	\$ 848

Depreciation and amortization of property, plant and equipment for the quarters ended March 31, 2010 and 2009 was \$136,000 and \$155,000, respectively.

**(5) Share Based Compensation**

During 2003, the Company adopted the 2003 ADA-ES, Inc. Stock Option Plan (the 2003 Plan) and reserved 400,000 shares of Common Stock for issuance under the plan. In general, all options granted under the plan expire ten years from the date of grant unless otherwise specified by the Company's Board of Directors. The exercise price of an option was determined by the compensation committee of the Board of Directors at the time the option was granted and was equal to 100% of the fair market value of a share of our Common Stock on the date the option was granted. This plan was cancelled and replaced by the 2007 Equity Incentive Plan (the 2007 Plan) described below, and as a result, 148,506 shares of Common Stock originally reserved for issuance upon exercise of options grantable under the 2003 Plan were removed from the 2003 Plan. During 2009, 1,250 options were exercised and 1,291 options were forfeited. As of March 31, 2010, 70,269 options remained outstanding and exercisable under this plan.

During 2004, the Company adopted the 2004 Executive Stock Option Plan. This plan authorized the grant of up to 200,000 options to purchase shares of the Company's Common Stock to executive officers of the Company, all of which were granted in 2004. The option exercise price of \$8.60 per share was the market price on the date of the grant. The options are exercisable over a ten year period based on a vesting schedule that may be accelerated based on performance of the individual recipients as determined by the Board of Directors. In January 2009, the Board of Directors authorized the vesting of the remaining unvested options totaling 117,234 under this plan with a fair value of \$236,000. As of March 31, 2010, 166,663 options remain outstanding and exercisable under this plan.

During 2004, the Company adopted a plan (the 2004 Plan) for the issuance of shares and the grant of options to purchase shares of the Company's Common Stock to the Company's non-management directors. The 2004 Plan provided for the grant of options to purchase 5,000 shares of common stock per individual non-management director, or 35,000 in total, all of which were formally granted in 2005 after approval of the 2004 Plan by the Company's shareholders. The option exercise price of \$13.80 per share for the stock options granted on November 4, 2004 was the market price on the date of the grant. The options are exercisable over a period of five years and vested over a three-year period, one-third each year for continued service on the Board. If such service is terminated, the non-vested portion of the option will be forfeited. As of March 31, 2010, 13,333 options were outstanding and exercisable under the 2004 Plan.

During 2005, the Company adopted the 2005 Directors' Compensation Plan (the 2005 Plan), which authorized the issuance of shares of Common Stock and the grant of options to purchase shares of the Company's Common Stock to non-management directors. The 2005 Plan provides a portion of the annual compensation to non-management directors of the Company in the form of awards of shares of Common Stock and options to purchase Common Stock of the Company for services performed for the Company. Under the 2005 Plan, the award of stock is limited to not more than 1,000 shares per individual per year, and the grant of options is limited to 5,000 per individual in total. The aggregate number of shares of Common Stock reserved for issuance under the 2005 Plan totals 90,000 shares (50,000 in the form of stock awards and 40,000 in the form of options). The exercise price for options granted under the 2005 Plan will be the market price on the date of grant, the shares of Common Stock underlying the option will vest at a rate of no more than 1,667 shares per annual period per individual, and any unvested options that are outstanding at the date the individual is no longer a director will be forfeited. The 2005 Plan, if not terminated earlier by the Board, will terminate ten years after the date of its adoption. As of March 31, 2010, 20,000 options remain outstanding, all of which were vested and

exercisable under this plan.

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Following is a table of options activity for the quarter ended March 31, 2010:

	<b>Director &amp; Employee Options</b>	<b>Non- Employee Options</b>	<b>Weighted Average Exercise Price</b>
<b>OPTIONS OUTSTANDING, January 1, 2010</b>	270,265	9,000	\$ 10.23
Granted	0	0	0.00
Exercised	0	0	0.00
Forfeited	0	0	0.00
<b>OPTIONS OUTSTANDING, March 31, 2010</b>	270,265	9,000	\$ 10.23
<b>OPTIONS EXERCISABLE, March 31, 2010</b>	270,265	9,000	\$ 10.23

No options were exercised during the quarter ended March 31, 2010. The aggregate intrinsic value of options exercisable at March 31, 2010 was a loss of \$600,000 based on a market price for the three months ended March 31, 2010 of \$8.00.

Stock options outstanding at March 31, 2010 are summarized in the table below:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Lives	Weighted Average Exercise Price
\$2.80	10,415	\$ 2.80	10,415	3.6	\$ 2.80
\$8.60 - \$10.20	183,343	\$ 8.64	183,343	5.6	\$ 8.64
\$13.80 - \$15.20	85,507	\$ 14.53	85,507	3.2	\$ 14.53
	279,265	\$ 10.23	279,265	4.8	\$ 10.23

No options were granted in the first quarter of either 2010 or 2009.

During 2007, the Company adopted the 2007 Plan, which replaced the 2003 Plan, as noted above. The 2007 Plan authorizes the issuance to employees, directors and consultants of up to 745,779 shares of common stock, either as restricted stock grants or to underlie options to purchase shares of the Company's common stock. Under the 2007 Plan, awards of stock (in the form of stock, restricted stock or shares underlying stock options) are limited to not more than 30,000 shares per individual per year with a maximum of 10,000 shares grantable in any year to non-management directors. In general, all options granted under the 2007 Plan will expire ten years from the date of grant unless otherwise specified by the Company's Board of Directors. The exercise price for options granted under the 2007 Plan will be the market price on the date of grant and the shares of common stock underlying the option will vest on the passage of specified times following the date of grant, the occurrence of one or more events, the satisfaction of performance criteria or other conditions specified by the Company's Board of Directors.

During 2009 and thus far in 2010, the Board of Directors awarded restricted stock under the 2007 Plan. All non-executive employees and certain officers were entitled to an award of restricted stock under the following conditions: (1) employees that had not received stock options upon commencement of employment received a restricted stock award based on a percentage of their starting salaries; (2) employees that had received stock options upon commencement of employment had the option to exchange any remaining stock options outstanding for a restricted stock award based on their starting salary; and (3) employees with five or more years of service received a restricted stock award based on a percent of their current annual salary. The purchase price for restricted stock is \$0.01 per share and the restricted stock vests over a five-year period on an annual basis. Unvested shares of restricted stock are subject to repurchase by the Company upon termination of employment with the Company. The stock based compensation related to the restricted stock award is based on the fair market value of a share of our Common Stock on the date of the award. During the year ended December 31, 2009, 62,005 shares of restricted Common Stock (net of the repurchase described below)

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were issued to new and five year anniversary employees, 154,506 shares of Common Stock were issued to employees, officers and directors for services rendered and 49,138 shares of Common Stock were issued to consultants for services rendered. In the first quarter of 2010, 1,300 shares of restricted stock previously issued to new and anniversary employees were repurchased, 14,769 of restricted stock were



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issued under incentive programs for which the shares were previously reserved for and 137,394 shares of stock were issued as compensation to employees, officers, and directors for services rendered to the Company. During the quarter ended March 31, 2010, the Company recognized \$39,000 of compensation costs related to the vesting of restricted stock and \$630,000 related to the issuance of stock.

A summary of the status of the non-vested shares as of March 31, 2010 is presented below:

Non-vested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2010	116,313	\$ 6.65
Granted	15,374	5.92
Vested	(436)	9.73
Repurchased	(1,905)	4.19
 Non-vested at March 31, 2010	 129,346	 \$ 6.27

As of March 31, 2010, there was \$208,000 of total unrecognized cost related to non-vested share-based compensation arrangements granted under the Company's equity incentive plans. This cost is expected to be recognized over a five year period. The total fair value of shares underlying stock options which vested during both quarters ended March 31, 2010 and 2009 was \$-0-.

In June 2009, the Company revised its ADA-ES, Inc. Profit Sharing Retirement Plan, which is a plan qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The revision permits the Company to issue shares of its common stock to employees to satisfy its obligation to match employee contributions under the terms of the 401(k) Plan in lieu of matching contributions in cash. The Company reserved 300,000 shares of its common stock for this purpose. The value of common stock issued as matching contributions under the 401(k) Plan is determined based on the per share market value of our Common Stock on the date of issuance. For the three months ended March 31, 2010, the Company issued 22,297 shares of stock under the 401(k) Plan and recognized \$140,000 of expense relating to such issuances.

**(6) Stockholders Equity**

Effective January 1, 2009, amounts attributable to minority interests in subsidiaries are now recognized as non-controlling interests. As discussed in Note 2, above, the Company consolidated the accounts of Carbon Solutions as of and for the quarter ended March 31, 2009. The Consolidated Statements of Changes in Stockholders' Equity provides for presentation of non-controlling interests. The changes are presented in aggregate of all non-controlling interests and components of non-controlling interests are as follows:

	Clean Coal	Carbon Solutions <i>(In thousands)</i>	Total
Balances, January 1, 2009	\$ 192	\$ 24,960	\$ 25,152
Preferred equity contributions	0	26,358	26,358
Net loss attributable to non-controlling interest	(11)	(613)	(624)
 Balances, March 31, 2009	 \$ 181	 \$ 50,705	 \$ 50,886
 Balances, January 1, 2010	 \$ 99	 \$ 0	 \$ 99
Equity contributions	720	0	720
Net loss attributable to non-controlling interests	(346)	0	(346)
 Balances, March 31, 2010	 \$ 473	 \$ 0	 \$ 473

On March 23, 2010, the Company executed a stock subscription agreement in accordance with a private placement memorandum and issued 143,885 shares of its common stock to Arch Coal, Inc and received proceeds, net of issuance costs, totaling \$993,000. The Company plans to

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register these shares in accordance with provisions of the registration rights agreement which was executed at the time of the stock subscription agreement.

**(7) Commitments and Contingencies**

Under certain contracts to supply ACI systems, we may grant performance guarantees to owners of the power plants that guarantee the performance of the associated equipment for a specified period. We may also guarantee the achievement of a certain level of mercury removal based upon the injection of a specified quantity of qualified AC at a specified rate given other plant operating conditions. In the event the equipment fails to perform as specified, the Company is obligated to correct or replace the equipment. In the event the level of mercury removal is not achieved, the Company may have a make right obligation within the contract limits. The Company assesses the risks inherent in each applicable contract and accrues an estimate that is based on costs incurred over the performance period of the contract. In some cases a performance bond may be purchased and held for the period of the warranty that can be used to satisfy the obligation. Such costs are included in our accrued warranty and other liabilities in the accompanying balance sheets. Any warranty costs paid out in the future will be charged against the accrual. The adequacy of warranty accrual balances is assessed at least quarterly based on current facts and circumstances and adjustments are made as needed. The change in the carrying amount for our equipment warranties and performance guarantees follows:

	2010	2009
	<i>(In thousands)</i>	
Balance as of January 1	\$ 604	\$ 546
Equipment warranty and performance guarantees accrued	34	14
Expenses paid	(23)	(4)
Balance as of March 31	\$ 615	\$ 556

In some cases, a performance bond may be purchased and held for the period of the warranty that can be used to satisfy the obligation. At March 31, 2010, we had a standby letter of credit for \$80,000 related to an installation of an ACI system. This commitment was not recorded on our consolidated balance sheet as we do not expect the funds to be called upon under the letter of credit.

In 2008, the Company made certain guaranties and undertook other obligations related to Carbon Solutions' business. No liabilities associated with such guaranties and obligations were recorded on the Company's consolidated balance sheet as the Company does not expect such guaranties and obligations to be called upon.

Summaries of the guaranties and obligations related to Carbon Solutions' business as of March 31, 2010 are as follows:

The Company has guaranteed all amounts owed by Red River under its \$243.6 million contract for the turn-key engineering, design, construction and other services for the AC Facility. Red River can terminate this contract for convenience at any time but would be liable for (a) the amount earned by the contractor under the contract through the effective date of termination, (b) cancellation charges to the contractor's subcontractors, (c) other reasonable termination-related costs incurred by the contractor, (d) costs of demobilization, and (e) unreimbursed sales taxes paid by the contractor. The remaining obligation under this contract at March 31, 2010 is approximately \$73 million.

In 2008, Red River entered into four contracts with an independent equipment supplier for the purchase of certain equipment. At or prior to the closing of Carbon Solutions' debt financing for its activated carbon facility, Red River will provide the supplier with a parent guaranty to guarantee payment and other obligations for which Red River is obligated under the equipment contracts. The parent guaranty is applicable to both the Company and the partner in the joint venture. At March 31, 2010, the remaining obligation under these contracts totaled approximately \$9.4 million. Red River may terminate these contracts for convenience at any time and would be liable for (a) reimbursable costs and amounts owing for achievement of milestones and progress payments to date, (b) reasonable and necessary cancellation charges incurred by the supplier in relation to its subcontractors, and (c) reasonably incurred actual costs of demobilization.

Red River entered into a sales contract with a major utility. The terms of the contract, including amendments, provide for ADA's guarantee of Red River's performance up to a maximum of \$750,000. This guaranty would expire upon the earlier of consummation of debt financing for the AC Facility or the date commercial operations commence at the AC Facility.

The Company has also guaranteed the obligations of Red River under a sales contract (which has since been amended) with another major utility. If this customer terminates the agreement because of Red River's default prior to commencement of delivery of AC from its AC Facility, damages can be awarded, up to a maximum of \$10 million.

Both parties are entitled to require specific performance of the other in limited circumstances when the cover remedies prove inadequate. No later than five business days after the third party debt financing portion for the AC Facility is obtained, each party is obligated to deliver to the other a \$10 million standby, unconditional, irrevocable letter of credit to secure the obligations to the other party in the event of default.

The Company has also guaranteed the obligations of Red River under a sales contract (which has since been amended) with a third major utility. The guaranty is effective until Red River has fulfilled its contractual obligations, which is estimated to occur in the second quarter of 2012, and may be terminated earlier based on Red River's financial position or the credit rating of its debt financing for the AC Facility. In any event, the Company's maximum aggregate liability under the guaranty is capped at \$1 million.

Under terms of agreements with Carbon Solutions, as amended in August, 2009, Red River has agreed to reimburse the Company and ECP in the event they are required to make payments related to these guaranties and guaranties provided by ECP and has granted a secured interest in its assets to ADA and ECP to secure the reimbursement agreement and any loans ECP makes to Red River. Carbon Solutions has guaranteed the obligations of Red River under the reimbursement and loan agreement and has pledged its equity interest in Red River to the Company and ECP as security for this guaranty. The Company has assigned its rights under these agreements to ECP, and any amounts payable to the Company would be paid directly to ECP until ECP's preferred equity in Carbon Solutions is fully redeemed or converted and all loans to Red River have been paid in full. As of March 31, 2010, the outstanding amount of ECP's preferred equity totaled \$98.5 million and the principal balance of ECP's loans to Red River totaled \$138.6 million. ECP's loans to Red River are evidenced by secured demand notes bearing interest at 12% per annum compounded quarterly.

As discussed in Note 2, above, the Company is obligated to indemnify both Carbon Solutions and ECP for certain damages and expenses they incur related to the Norit litigation matter. Estimated costs for legal expenses are accrued as incurred. Future indemnity cost cannot be reasonably estimated and, therefore, no provision for such costs has been recognized on these financial statements.

The Company has also guaranteed the obligation of Carbon Solutions under a noncancellable operating lease agreement. The lease is for approximately 3,100 square foot of combine office and warehouse space in Littleton, Colorado. The guaranty is effective until August 31, 2010. The remaining obligation under this contract at March 31, 2010 is approximately \$15,000.

**(8) Business Segment Information**

The following information relates to the Company's three reportable segments: Emissions control ( EC ), Carbon Capture ( CC ) and Refined coal ( RC ). All assets are located in the U.S. and are not evaluated by management on a segment basis. All significant customers are U.S. companies.

	Quarter Ended March 31,	
	2010	2009
	<i>(In thousands)</i>	
<b>REVENUE:</b>		
EC	\$ 3,064	\$ 4,606
CC	803	261
RC	0	0
<b>Total</b>	<b>\$ 3,867</b>	<b>\$ 4,867</b>
<b>SEGMENT PROFIT (LOSS):</b>		
EC	\$ 930	\$ 1,578
CC	498	112
RC	(645)	(65)
<b>Total</b>	<b>\$ 783</b>	<b>\$ 1,625</b>

A reconciliation of the reported total segment profit to net loss for the periods shown above is as follows:

	<b>Quarter Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(In thousands)</i>	
Total segment profit	\$ 783	\$ 1,625
Non-allocated general and administrative expenses	(4,191)	(2,983)
Depreciation and amortization	(209)	(157)
Interest, other income	19	33
Equity in net loss of Carbon Solutions	(1,181)	0
Deferred income tax benefit	1,613	315
Net loss attributable to non-controlling interests	346	624
 Net loss attributable to ADA-ES, Inc.	 \$ (2,820)	 \$ (543)

Non-allocated general and administrative expenses include costs that benefit the business as a whole and are not directly related to any one of our segments. Such costs include but are not limited to accounting and human resources staff, information systems costs, facility costs, audit fees and corporate governance expenses.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties. Words or phrases such as anticipate, assume, believe, hope, expect, intend, plan, the negative expressions of such words and similar expressions are used in this Report to identify forward-looking statements, and such forward-looking statements include, but are not limited to, statements or expectations regarding:

- (a) the impact of the invalidation of the Clean Air Mercury Rule ( CAMR ), when Maximum Achievable Control Technology ( MACT ) based mercury regulations will be promulgated and/or legislation impacting our business will be enacted and the timing, scope and impact of such regulations or legislation;
- (b) expected long-term growth in the EC market and continued funding in the CC market;
- (c) expected growth in the power industry's interest in and funding for carbon dioxide ( CO<sub>2</sub> ) capture projects;
- (d) the appropriation of funds by Congress for DOE CO<sub>2</sub> projects;
- (e) the timing of awards of contracts and their value;
- (f) the proposed license agreement with Arch Coal, Inc.;
- (g) the expected costs, capacity of, funding of and timing for the commencement of operations at the activated carbon facility ( AC ) that is being built by Red River in Coushatta, Red River Parish, Louisiana (the AC Facility );
- (h) the willingness and ability of ECP to continue to fund the construction costs of the AC Facility and legal expenses relating to the Norit arbitration through contributions and loans to Carbon Solutions;
- (i) possible changes in the level of our ownership of Carbon Solutions;
- (j) timing and amounts of or changes in future revenues, funding for our business, margins, expenses, cash flow and other financial measures;
- (k) impact of pending legal actions, including the costs thereof and our indemnity obligations to Carbon Solutions and ECP;
- (l) the ability of Clean Coal to monetize its refined coal facilities;
- (m) sustainability of the RC market;
- (n) working capital and liquidity; and
- (o) the materiality of any future adjustments to previously recorded revenue as a result of DOE audits.

The forward-looking statements included in this Report involve risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors including, but not limited to: lack of working capital to operate our businesses, pay ongoing legal expenses and satisfy our indemnity obligations relating to the Norit litigation; the government's failure to enact legislation, promulgate regulations or appropriate funds that benefit our business; changes in laws and regulations, prices, economic conditions and market demand; impact of competition and litigation; availability, cost of and demand for alternative energy sources and other technologies; start up and operational difficulties; loss of key personnel; failure to satisfy performance guaranties; risks related to Carbon Solutions, including the changes in the costs and timing of construction of the AC Facility; the willingness and ability of ECP to continue to fund costs of operating Carbon Solutions pending receipt of additional equity and debt financing; ECP's conversion of outstanding loans to Red River or preferred equity to ordinary capital



contributions in Carbon Solutions; demand by ECP of payment on its loans to Red River or our indemnity obligations to it or Carbon Solutions; ECP's control of Carbon Solutions and potential further dilution of our interest; failure to satisfy conditions in our existing agreements; inability of Carbon Solutions to close acceptable debt financing or off-take agreements with respect to the AC Facility in a timely manner; the ability of Clean Coal's product to continue to qualify for IRS Section 45 tax credits and the ability of Clean Coal to monetize its Section 45 tax credits from the sale of refined coal; availability of raw materials and equipment for our businesses; as well as other factors relating to our business, as described in our filings with the U.S. Securities and Exchange Commission, with particular emphasis on the risk factor disclosures contained in those filings and in Item 1A of our Annual Report on Form 10-K. You are cautioned not to place undue reliance on the forward-looking statements made in this report, and to consult filings we have made and will make with the SEC for additional discussion concerning risks and uncertainties that may apply to our business and the ownership of our securities. The forward-looking statements contained in this Report are presented as of the date hereof, and we disclaim any duty to update such statements unless required by law to do so.

## Overview

We develop and implement proprietary environmental technology and provide specialty chemicals to the coal-burning electric utility industry. Beginning this quarter, we have changed our segment reporting structure to better reflect the way we manage and measure the performance of our business. We now have three operating segments: EC (emissions control); CC (CO<sub>2</sub> capture) and RC (refined coal). The EC segment includes the supply of emissions control systems including powdered activated carbon injection (ACI) systems and the sale of specialty chemicals, equipment and services for flue gas conditioning projects and other applications. The CC segment includes projects relating to the CO<sub>2</sub> capture and control market, including projects co-funded by government agencies, such as the Department of Energy (DOE). The RC segment includes the development and sale of technology, services and equipment for the refined coal market.

We conduct research and development efforts in CO<sub>2</sub> capture and control from coal-fired boilers, and in 2008, we commenced work on our first significant contract related to CO<sub>2</sub> capture, which is scheduled to continue through the end of 2010 and could be extended into 2011. We are marketing our RC technology, services and equipment through our 50% interest in a joint venture with NexGen Refined Coal, LLC (NexGen), an affiliate of NexGen Resources Corporation, called Clean Coal Solutions, LLC (Clean Coal). In addition, the ADA Carbon Solutions, LLC (Carbon Solutions) joint venture, of which we owned 32% as of March 31, 2010, is constructing an activated carbon (AC) manufacturing facility in Coushatta, Red River Parish, Louisiana (the AC Facility) primarily for emissions control applications related to mercury emissions from coal burning utilities. Carbon Solutions, through a wholly owned subsidiary, is processing and supplying AC to utility customers from interim sources until such time as the AC Facility is operational. References to Carbon Solutions include its wholly-owned subsidiaries of Red River Environmental Products, LLC (Red River), Five Forks Mining, LLC, Morton Environmental Products, LLC, Underwood Environmental Products, LLC, and Crowfoot Supply Company, LLC (Crowfoot Supply).

Mercury has been identified as a toxic substance and, pursuant to a court order, the EPA issued regulations for its control in March 2005, which were known as the Clean Air Mercury Rule or CAMR. CAMR has been subject to significant challenges since it was issued. Most recently, in April 2010, the U.S. District Court of Appeals of the District of Columbia approved the consent agreement reached last year between EPA and a coalition of public health and environmental groups that sued in 2008 to force the agency to set tight emission limits. That settlement requires EPA to issue a draft rule requiring strict plant-specific controls for power plants' toxic air pollutants by March 16, 2011, and a final rule no later than November 16, 2011. These rules will establish a Maximum Achievable Control Technology (MACT)-based hazardous pollutant regulation, which will include control of mercury from power plants, organics and volatile metals such as arsenic, selenium and acid gases such as hydrogen chloride (HCL). The MACT standard will be based upon the best-performing 12% of the power plants and will not allow any averaging or trading. We estimate that with the performance of ACI systems recently installed, and the co-benefits achieved from controls for sulfur dioxide and nitrogen oxides, the MACT standard for mercury will require between 90 and 95% mercury capture from utility boilers.

Pending the EPA's issuance of final rules, a lack of clear mercury emission regulations has generated uncertainty among independent power producers and utilities as to what will be required of them as far as mercury controls, and is adversely impacting their ability to include mercury control costs in their rate bases. It is of course possible that Congress could also enact new legislation requiring stricter mercury emission control within the next year or two, with implementation deadlines over the subsequent two to three years.

In addition to our two key growth areas, mercury control and refined coal, we continue to demonstrate our position as a premier developer of innovative clean energy technologies. Control of CO<sub>2</sub> from coal-fired power plants is currently a topic of discussion in Washington and a significant issue for the coal industry related to the impact of CO<sub>2</sub> emissions on climate change. A number of

permits for new coal-fired plants were rejected by various state officials in 2009 in response to protests by environmental groups. We see this as an opportunity and have begun developing technologies to address the needs of our customers through reduction of CO<sub>2</sub> generation, CO<sub>2</sub> capture and beneficial use of CO<sub>2</sub>.

In addition to the independent power producers and utilities, EPA has started the process of developing a MACT-based mercury emissions regulation for the Portland cement industry through proposed amendments to the National Emission Standards for Hazardous Air Pollutants ( NESHAP ) for the Portland Cement Manufacturing Industry issued in May 2009, for which the EPA accepted public comments through September 4, 2009. The cement MACT final regulation is scheduled to be issued by June 2010. This regulation could require ACI systems on up to 110 cement kilns in the U.S. We are discussing several testing programs with cement companies to define their emissions and evaluate how our ACI equipment and sorbents will work in that industry. The tests are designed to evaluate the effectiveness of collecting mercury and organics from cement kiln exhaust gas streams. We believe a cement MACT regulation is likely and will increase the market for both ACI systems and AC.

The EPA is also developing a new MACT regulation for coal-fired boilers that provide mostly steam and/or electricity for small industrial and institutional power needs with no more than 25 MW of electricity sold to the grid. A draft regulation was released on April 30, 2010, with a final regulation anticipated to be issued by the court-mandated deadline of December 16, 2010, with compliance deadlines in late 2013 or early 2014. This regulation could impact over 600 existing coal-fired industrial boilers. The proposed emission limit of three pounds of mercury per Trillion BTU would require 60-70% capture of mercury from boilers burning bituminous coals and 40-50% capture of mercury from boilers burning sub bituminous coals. We believe a new industrial boiler regulation could increase the market for ACI systems by several hundred and the associated AC by 50 to 100 million pounds per year with the possibility of significantly higher quantities should other non-coal-fired boilers be included in this new regulation.

The Clean Air Act requires that all regulations be met within 36 months. Although federal regulations continue to evolve, the market demand continues in 19 states and 6 Canadian provinces that either have passed their own mercury control regulations or have entered agreements with power plants to reduce mercury emission for new power plants. The DOE Energy Information Administration estimates an additional 24 GW of new capacity between 2008 and 2030. We believe that further substantial long-term growth of the MEC market for the independent power producer and utilities industry will most likely depend on how industry chooses to respond to the pending federal and state regulations. We anticipate this will create an even larger market for our mercury control products beyond 2010. As many as 1,500 existing coal-fired boilers may be affected by such regulations, if and when they are fully implemented. DOE's latest report, issued in 2009, includes 77 existing and planned new coal-fired power plant projects totaling 44 GW of capacity. Permitting of new coal-fired plants generally requires them to meet more stringent requirements that likely include MEC. For the near-term, our revenues from this market will be dependent on (i) equipment sales of ACI systems and (ii) mercury testing and consulting services. Some state regulations and consent decrees are the largest market drivers for this part of our business. Although we expect this market to be flat and show little growth over the next year, we believe the opportunity for the most significant revenue growth will occur when final federal regulations or legislation impacts a significant portion of previously uncontrolled and existing boilers.

Thus far in 2010, we have installed or are in the process of installing 46 ACI systems. We are active in the bid and proposal process and expect several new systems to be awarded during 2010. We believe the eventual outcome of the EPA MACT process and/or legislative action will accelerate and further expand the market for our EC products and services. Because many of our current and potential customers would be affected by new federal regulations replacing CAMR, we are seeing delays in the decision-making process on mercury control as a result of the invalidation of CAMR, which has postponed the award of some near-term projects as independent power producers and utilities revise their long-term plans for compliance. Consequently, we expect sales of ACI systems to decline in the near-term. Revenue from ACI system contracts totaled \$2.5 million for the quarter ended March 31, 2010. We had contracts in progress at quarter-end for supply of ACI systems totaling approximately \$3.3 million.