ADA-ES INC
Form 10-Q
May 10, 2012

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

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	**84-1457385**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9135 South Ridgeline Boulevard, Suite 200,

Highlands Ranch, Colorado	**80129**
(Address of principal executive offices)	**(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 x 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
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 x

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	**Outstanding at April 30, 2012**

Common Stock, no par value	10,004,294

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

ADA-ES, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share data)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,328	$ 40,879
Receivables, net of allowance for doubtful accounts	7,557	5,914
Investment in securities	403	508
Prepaid expenses and other assets	4,087	3,924
Total current assets	40,375	51,225
Property and Equipment, at cost	47,754	41,771
Less accumulated depreciation and amortization	(5,649)	(4,651)
Net property and equipment	42,105	37,120
Investment in unconsolidated entity	1,126	590
Deferred taxes	17,226	16,233
Other assets	881	931
Total other assets	19,233	17,754
Total Assets	**$ 101,713**	**$ 106,099**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 6,631	$ 10,058
Accrued payroll and related liabilities	1,120	2,545
Line of credit	17,643	10,873
Deposits	11,900	14,900
Deferred revenue and other liabilities	5,408	5,105
Settlement awards and related accrued liabilities	3,884	3,983
Total current liabilities	46,586	47,464
Long-term Liabilities:		
Line of credit		3,624
Settlement awards and indemnity liability	5,000	5,200
Deferred revenue	1,105	
Accrued warranty and other liabilities	658	632
Total long-term liabilities	6,763	9,456

Total liabilities	53,349	56,920
Commitments and Contingencies (Note 9)		
Stockholders Equity:		
ADA-ES, Inc. stockholders equity		
Preferred stock: 50,000,000 shares authorized, none outstanding		
Common stock: no par value, 50,000,000 shares authorized, 10,003,905 and 9,996,144 shares issued and outstanding, respectively	93,310	93,184
Accumulated deficit	(49,470)	(48,069)
Total ADA-ES, Inc. stockholders equity	43,840	45,115
Non-controlling interest	4,524	4,064
Total Stockholders Equity	48,364	49,179
Total Liabilities and Stockholders Equity	**$ 101,713**	**$ 106,099**

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	For the Quarter Ended March 31, 2012	2011
Revenue:		
Refined coal	$ 15,174	$ 6,086
Emission control	2,764	2,033
CO_2 capture	282	348
Total revenues	18,220	8,467
Cost of Revenues:		
Refined coal	12,043	175
Emission control	2,068	836
CO_2 capture	117	283
Total cost of revenues	14,228	1,294
Gross Margin before Depreciation and Amortization	3,992	7,173
Other Costs and Expenses:		
General and administrative	3,639	4,817
Research and development	564	321
Depreciation and amortization	1,024	185
Total expenses	5,227	5,323
Operating Income (Loss)	(1,235)	1,850
Other Income (Expense):		
Net equity in net income (loss) from unconsolidated entities	36	(1,959)
Other income including interest	99	592
Interest expense	(470)	
Settlement of litigation and arbitration award, net	(284)	(39,502)
Total other income (expense)	(619)	(40,869)
Loss from Continuing Operations Before Income Tax Benefit and Non-controlling Interest	(1,854)	(39,019)
Income Tax Benefit	1,019	14,256
Net Loss Before Non-controlling Interest	(835)	(24,763)
Non-controlling Interest	(566)	(2,779)
Net Loss Attributable to ADA-ES, Inc.	**$ (1,401)**	**$ (27,542)**

Net Loss Per Common Share Basic and Diluted Attributable to ADA-ES, Inc.	$ (0.14)	$ (3.63)
Weighted Average Common Shares Outstanding	9,999	7,579
Weighted Average Diluted Common Shares Outstanding	9,999	7,579

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

For the Quarters Ended March 31, 2012 and 2011

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	(Accumulated Deficit)	Total ADA-ES Stockholders Equity	Non-controlling Interest	Total Equity
Balances, January 1, 2011	7,538,861	$ 39,627	$ (28,218)	$ 11,409	$ 2,035	$ 13,444
Stock-based compensation	59,573	416		416		416
Issuance of stock to 401(k) plan	7,504	90		90		90
Issuance of stock on exercise of options	2,216	20		20		20
Equity contributions by non-controlling interest					250	250
Distributions to non-controlling interest					(3,029)	(3,029)
Expense of stock issuance and registration		(17)		(17)		(17)
Net (loss) income			(27,542)	(27,542)	2,779	(24,763)
Balances, March 31, 2011	7,608,154	$ 40,136	$ (55,760)	$ (15,624)	$ 2,035	$ (13,589)
Balances, January 1, 2012	9,996,144	$ 93,184	$ (48,069)	$ 45,115	$ 4,064	$ 49,179
Stock-based compensation	2,235	47		47		47
Issuance of stock to 401(k) plan	3,859	84		84		84
Issuance of stock on exercise of options	1,667	17		17		17
Distributions to non-controlling interest					(106)	(106)
Expense of stock issuance and registration		(22)		(22)		(22)
Net (loss) income			(1,401)	(1,401)	566	(835)
Balances, March 31, 2012	10,003,905	$ 93,310	$ (49,470)	$ 43,840	$ 4,524	$ 48,364

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	For the Quarter Ended March 31, 2012	2011
Cash Flows from Operating Activities:		
Net loss	$ (1,401)	$ (27,542)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,024	185
Deferred tax benefit	(1,019)	(14,256)
Expenses paid with stock, restricted stock and stock options	131	506
Net equity in net (income) loss from unconsolidated entities	(36)	1,958
Non-controlling interest in income from subsidiaries	566	2,779
Changes in operating assets and liabilities:		
Receivables, net	(1,643)	421
Prepaid expenses and other assets	(62)	(95)
Accounts payable	(3,427)	(455)
Accrued payroll, expenses and other related liabilities	(1,425)	422
Deposits	(3,000)	
Deferred revenue and other liabilities	1,434	(1,240)
Settlement awards and related accrued liabilities	(300)	39,502
Net cash provided by (used in) operating activities	(9,158)	2,185
Cash Flows from Investing Activities:		
Maturity of investment	105	
Principal payments received on notes receivable		571
Capital expenditures for equipment, patents and development projects	(6,033)	(1,060)
Net cash used in investing activities	(5,928)	(489)
Cash Flows from Financing Activities:		
Net borrowings under line of credit	3,146	716
Loan to unconsolidated entity	(500)	
Non-controlling interest equity contributions		250
Distributions to non-controlling interest	(106)	(3,029)
Exercise of stock options	17	
Issuance of common stock		20
Stock issuance and registration costs	(22)	(17)
Net cash provided by (used in) financing activities	2,535	(2,060)
Decrease in Cash and Cash Equivalents	(12,551)	(364)
Cash and Cash Equivalents, beginning of period	40,879	9,696
Cash and Cash Equivalents, end of period	**$ 28,328**	**$ 9,332**

Supplemental Schedule of Non-Cash Flow Financing Activities:				
Stock and stock options issued for services	$	131	$	506
Cash paid for interest	$	686	$	
Accrued capital expenditures	$	1,920	$	

See accompanying notes.

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ADA-ES, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2012

(1) Basis of Presentation

Nature of Operations

ADA-ES, Inc. (ADA), its three wholly-owned subsidiaries, Advanced Emissions Solutions, Inc., a Delaware corporation (ADES) and ADA Intellectual Property, LLC, a Colorado limited liability company (ADA IP), both of which had no operations during the first quarter of 2012, and ADA Environmental Solutions, LLC, a Colorado limited liability company (ADA LLC) and ADA s joint venture interest in Clean Coal Solutions, LLC (Clean Coal) are collectively referred to as the Company . The Company is principally engaged in providing environmental technologies and specialty chemicals to the coal-burning electric power generation industry. The Company generates a substantial part of its revenue from the sale of refined coal (RC), the sale of Activated Carbon Injection (ACI) systems, contracts co-funded by the government and industry and the development and lease of equipment for the RC market. The Company s sales occur principally throughout the United States.

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. They 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, ADES, ADA IP, ADA LLC and Clean Coal. All significant intercompany balances and transactions have been eliminated 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 quarter ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.

The Company prepares its consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company 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.

Reclassifications

Certain amounts have been reclassified from the prior periods to conform to the current period financial statement presentation. Such reclassification had no effect on the net loss reported.

New Accounting Standard

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-08 which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company performs its annual goodwill impairment test in the fourth quarter and does not expect the adoption of this ASU to significantly impact its consolidated financial statements.

(2) Investment in Unconsolidated Entity

Clean Coal Solutions Services

On January 20, 2010, the Company, together with NexGen Resources Corporation (NexGen), formed Clean Coal Solutions Services, LLC (CCSS) for the purpose of operating RC facilities leased to third parties. The Company has a 50% ownership interest in CCSS (but does not have management control of it) and the Company s investment in and advances to CCSS which totaled $1.1 million as of March 31, 2012 includes its share of CCSS income since its formation and is accounted for under the equity method of accounting. The following schedule shows unaudited consolidated summarized information as to assets, liabilities and revenues and net income attributed to CCSS before consolidation. CCSS consolidated financial statements include the financial results of the entities that lease RC facilities and its revenues includes sale of RC and its cost of sales include raw coal purchases.

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Current assets	$ 35,051	$ 22,609
Property, equipment, and other long-term assets	2,775	3,682
Total Assets	$ 37,826	$ 26,291
Total Liabilities	$ 23,969	$ 15,988

	Quarter Ended March 31	
	2012	2011
	(in thousands)	
Net revenue	$ 38,792	$ 48,585
Net income- attributed to CCSS	$ 73	$ 53

(3) Joint Venture Investment in Clean Coal

In November 2006, the Company sold a 50% interest in its joint venture called Clean Coal Solutions, LLC, which was formed in 2006 with NexGen, to market RC technology. In May 2011, Clean Coal sold an effective 15% interest of its equity to an affiliate of The Goldman Sachs Group, Inc. (GS). GS s interest has certain preferences over ADA and NexGen as to liquidation and profit distribution. GS has no further capital call requirements and does not have a voting interest but does have approval rights over certain corporate transactions.

In September 2011, ADA, NexGen, and GS entered into the First Amendment to the Second Amended and Restated Operating Agreement pursuant to which ADA and NexGen each transferred their 2.5% member interests in each of Clean Coal s subsidiaries back to Clean Coal. As a result of these transactions, ADA s interest in Clean Coal s net profits and losses is now 42.5%. This restructuring of ownership interests did not change the financial relationships of the parties and ADA still maintains a 50% controlling and governance interest in Clean Coal. Since its inception, ADA has been considered the primary economic beneficiary of this joint venture and has consolidated the accounts of Clean Coal.

Clean Coal s function is to supply technology, equipment and technical services to cyclone-fired and other boiler users, but Clean Coal s primary purpose is to put into operation facilities that produce RC that qualifies for tax credits that are available under Section 45 of the Internal Revenue Code (Section 45 tax credits). Clean Coal qualified two facilities in 2009 for such purposes and leased those facilities to a third party in 2010.

In December 2010, the Tax Relief and Job Creation Act of 2010 extended the placed in service deadline for the Section 45 tax credits to January 1, 2012. In consideration of the extension, Clean Coal built and qualified an additional 26 RC facilities in 2011, which met the extended placed in service date. In November and December 2011, the two leased RC facilities qualified in 2009 were exchanged with newly constructed, redesigned RC facilities. The new leases carry over most of the substantive terms and conditions of the initial leases.

The operating agreement of Clean Coal requires NexGen and ADA to each pay 50% of the costs of operating Clean Coal and specifies certain duties that both parties are obligated to perform. Pursuant to the Second Amended and Restated Operating Agreement and Exclusive Right to

Lease Agreement, GS is in the process of exercising its exclusive right (but not the obligation) to lease facilities that will produce up to approximately 12 million tons of RC per year on pre-established lease terms similar to those currently in effect for Clean Coal s first two leased facilities.

Following is unaudited summarized information as to assets, liabilities and results of operations of Clean Coal:

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Primary assets		
Cash and cash equivalents	$ 1,327	$ 8,804
Accounts receivable, net	4,244	3,177
Prepaid expenses and other assets	3,273	3,028
Property, plant and equipment including assets under lease and assets placed in service, net	40,668	36,751
Primary liabilities		
Accounts payable and accrued liabilities	$ 6,286	$ 11,735
Line of credit	17,643	14,497
Deferred revenue, current and deposits	16,495	18,500
Deferred revenue, long term	1,105	

	Quarter Ended March 31, 2012	2011
	(in thousands)	
Net revenue	$ 15,174	$ 6,079
Net revenue excluding RC sales	$ 5,402	$ 6,079
Net income	$ 985	$ 5,264

(4) <u>Deferred Revenue and Deposits</u>

Deferred revenue consists of:

billings in excess of costs and earnings on uncompleted contracts; and

deferred rent revenue related to Clean Coal s lease of its RC facilities.

<u>Clean Coal Deferred Rent Revenue</u>

In June 2010, Clean Coal executed agreements to lease two RC facilities. These agreements provided for, among other things, a prepaid rent payment of $9 million for both facilities that was received before June 30, 2010. In November and December 2011, Clean Coal entered into transactions to exchange the existing facilities. There was no change to the prepaid rent payment or amortization period as a result of the exchange. A third RC facility was leased to GS during the first quarter of 2012. Prepaid rent of $3 million related to this facility will be amortized starting in the third quarter of 2012.

Thus far in 2012, the Company has recognized $5.4 million in total rent revenues related to the RC facilities which includes $900,000 from the initial prepaid rent payment. Current deferred revenues of $4.6 million are included in deferred revenue and other liabilities in the consolidated balances sheets and long-term deferred revenues of $1.1 million are included in deferred revenue in the consolidated balance sheets at March 31, 2012 related to these rent revenues.

<u>Clean Coal Deposits</u>

Clean Coal has deposits of $11.9 million towards RC facilities which may be leased upon attainment of certain milestones that are included in deposits in the consolidated balance sheets at March 31, 2012.

(5) <u>Net Loss Per Share</u>

Basic loss per share is computed based on the weighted average common shares outstanding in the period. Diluted loss 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 7) to purchase shares of common stock for the quarters ended March 31, 2012 and 2011 were excluded from the calculation of diluted shares as their effect is anti-dilutive.

(6) Property and Equipment

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

	Years	As of March 31, 2012	As of December 31, 2011
		(in thousands)	
Machinery and equipment	3-10	$ 4,620	$ 3,937
Leasehold improvements	2-5	1,459	624
Furniture and fixtures	3-7	599	281
RC assets under lease and placed in service	10	41,076	36,929
		47,754	41,771
Less accumulated depreciation and amortization		(5,649)	(4,651)
Total property and equipment, net		$ 42,105	$ 37,120

	Quarter Ended March 31, 2012	2011
	(in thousands)	
Depreciation and amortization	$ 1,024	$ 185

(7) Share Based Compensation

Since 2003, ADA has had several stock and option plans, including the Amended and Restated 2007 Equity Incentive Plan dated as of August 31, 2010 (the 2007 Plan) and the 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) described below. These plans allow ADA to issue stock or options for shares of common stock to employees, Board of Directors and non-employees.

Following is a table of options activity for the quarter ended March 31, 2012:

	Employee and Director Options	Weighted Average Exercise Price
Options outstanding, January 1, 2012	182,942	$ 9.95
Options granted		
Options expired		
Options exercised	(1,667)	10.18
Options outstanding and exercisable, March 31, 2012	181,275	$ 9.95

Following is a table of aggregate intrinsic value of options exercised and exercisable for the quarter ended March 31, 2012:

	Intrinsic Value	Average Market

		Price
Exercised, March 31, 2012	$ 21,035	$ 22.80

	Intrinsic Value	Market Price
Exercisable, March 31, 2012	$ 2,603,994	$ 24.31

Stock options outstanding and exercisable at March 31, 2012 are summarized in the table below:

Range of Exercise Prices	Number of Options Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Lives
$8.60 - $10.20	142,583	$ 8.66	3.6
$13.80 - $15.20	38,692	$ 14.70	3.3
	181,275	$ 9.95	3.6

No options were granted and/or vested during the quarter ended March 31, 2012.

Although ADA adopted the 2007 Plan in 2007, it was further amended and restated as of August 31, 2010 to make non-material changes to assure Internal Revenue Code Section 409A compliance and to increase the non-management director annual grant limit to 15,000 shares of common stock from 10,000 shares. The 2007 Plan authorizes the issuance to employees, directors and non-employees of up to 1 million shares of common stock, either as restricted stock grants or to underlie options to purchase shares of ADA s common stock.

In 2009, the Company revised its 401(k) Plan. The revision permits ADA to issue shares of its common stock to employees to satisfy its obligation to match employee contributions under the terms of the plan in lieu of matching contributions in cash. ADA reserved 300,000 shares of its common stock for this purpose. The value of common stock issued as matching contributions under the plan is determined based on the per share market value of ADA s common stock on the authorization date.

Following is a table summarizing the activity under various stock issuance plans for the quarter ended March 31, 2012:

Stock Issuance Plans	2007 Plan	401(k) Plan	Other Stock Plans
Balance available, January 1, 2012	30,954		