ADA-ES INC
Form 10-Q/A
October 19, 2012

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended June 30, 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	**(I.R.S. Employer**
incorporation or organization)	**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 July 31, 2012**
Common Stock, no par value	10,013,910

EXPLANATORY NOTE

ADA-ES, Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A (this Amendment) to amend its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2012 originally filed with the Securities and Exchange Commission (the SEC) on August 9, 2012 (the Original Filing). This Amendment reflects the restatement of the Company s consolidated financial statements and amendment of related disclosures as of June 30, 2012 and December 31, 2011 and for the three and six month periods ended June 30, 2012 and 2011 as discussed below and in Note 12 to the accompanying restated consolidated financial statements.

1. Background of the Restatement

As discussed in the Company s Current Reports on Form 8-K dated June 20, 2012 and August 14, 2012, the Company s management determined, after consultation with the Company s Board of Directors, Audit Committee, independent registered public accounting firm and outside tax experts, that the Company s previously issued audited consolidated financial statements included in its Annual Reports on Form 10-K for the fiscal years ended December 31, 2010 and 2011 and the interim unaudited consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, March 31, 2012 and June 30, 2012 needed to be restated as a result of certain corrections to the figures and disclosures contained therein and therefore could no longer be relied upon.

Reclassification of Equity Interest

The Company had previously classified the equity interest of an affiliate of the Goldman Sachs Group (GS) in our joint venture, Clean Coal Solutions, LLC (Clean Coal), as a non-controlling interest in stockholders equity (deficit) on the Company s Consolidated Balance Sheet as of June 30, 2011, September 30, 2011, December 31, 2011 and March 31, 2012. In June 2012, after completion of a review and evaluation of the operating agreement of Clean Coal and the members rights and obligations thereof and applicable accounting authoritative literature, management determined that the GS interest would be more appropriately classified as temporary equity as of June 30, 2011 and for each subsequent quarter thereafter because of a provision in the Clean Coal operating agreement that permits GS to require redemption of its interest under certain limited circumstances. As a result, the Company is restating its consolidated financial statements for fiscal year ended December 31, 2011 to reflect the GS interest as temporary equity on the Company s consolidated balance sheet. While the effect of this reclassification was reflected in the Original Filing, the amounts recorded as temporary and permanent equity have been reclassified as of June 30, 2012 to conform to the accounting for temporary equity as shown on prior period restated filings.

Deferred Tax Assets Valuation Allowance

In August 2012, after extensive discussions with the SEC s Division of Corporation Finance and Office of the Chief Accountant and the Company s outside tax experts, independent registered public accounting firm, Audit Committee and Board of Directors, management determined that the Company should have recognized a full valuation allowance against its net deferred tax assets as of December 31, 2010 and for each subsequent quarter thereafter. Management determined that it was necessary to record the valuation allowance against the Company s deferred tax assets after reconsidering the weight given in the original assessment to the relevant information used to measure the positive and negative evidence regarding the potential for ultimate realization of the deferred tax assets.

Realization of the deferred tax assets is dependent upon the Company s ability to generate future taxable income. In its reassessment, management concluded that the objective and verifiable negative evidence represented by historical losses outweighed more subjective positive evidence of anticipated future income. As a result, management determined that it was necessary to record a full valuation allowance against the Company s deferred tax assets and is restating the consolidated financial statements for the quarterly periods ended June 30, 2012 and 2011 and as of December 31, 2011.

2. Impact on the Consolidated Financial Statements

The financial statement effect of these changes on the Company s Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011, Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011, Consolidated Statements of Changes in Stockholders Deficit for the six months ended June 30, 2012 and 2011 and Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 is discussed in Note 12 in the accompanying consolidated financial statements. The restatement reflects non-cash adjustments and has no effect on previously reported operating income results. The Company also amended its Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 on October 19, 2012.

3. Internal Control over Financial Reporting and Disclosure Controls and Procedures Considerations

Management has concluded that material weaknesses in the Company s internal control over financial reporting existed related to the accounting for the equity investment in Clean Coal that has been held by an affiliate of GS since May 2011 and the establishment and maintenance of a valuation allowance against the Company s deferred tax assets. Accordingly, this Amendment amends the Company s disclosures regarding the effectiveness of the Company s internal control over financial reporting and disclosure controls and procedures as of June 30, 2012.

4. Amended Items

No attempt has been made in this Amendment to modify or update the disclosures in the Original Filing except as required to reflect the effect of the restatement discussed herein. Except as otherwise noted herein, this Amendment continues to describe conditions as of the date of the Original Filing and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing, other than the restatement, and such forward-looking statements should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and the Company s other filings with the SEC.

Part I Item 1 (Consolidated Financial Statements), Part I Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Part I Item 4 (Controls and Procedures) have been amended from the Original Filing as a result of the restatement. Part II Item 6 (Exhibits) has also been amended to include currently dated certifications from the Company s principal executive officer and principal financial officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company s principal executive officer and principal financial officer are attached to this Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2.

Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ADA-ES, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share data)

	June 30, 2012 (Unaudited) (Restated, see Note 12)	December 31, 2011 (Restated, see Note 12)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 23,137	$ 40,879
Receivables, net of allowance for doubtful accounts	13,892	5,914
Investment in securities	735	508
Prepaid expenses and other assets	2,197	1,532
Total current assets	39,961	48,833
Property and Equipment, at cost	50,125	41,771
Less accumulated depreciation and amortization	(6,779)	(4,651)
Net property and equipment	43,346	37,120
Other Assets		
Investment in unconsolidated entity	1,257	590
Other assets	1,096	931
Total other assets	2,353	1,521
Total Assets	**$ 85,660**	**$ 87,474**
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts payable	$ 12,277	$ 10,058
Accrued payroll and related liabilities	1,408	2,545
Line of credit	18,000	10,873
Deposits	11,900	14,900
Deferred revenue and other liabilities	4,321	5,105
Settlement awards and related accrued liabilities	3,755	3,983
Total current liabilities	51,661	47,464
Long-term Liabilities		
Line of credit		3,624
Settlement awards and indemnity liability	2,500	5,200
Deferred revenue	1,105	
Accrued warranty and other liabilities	657	632

Total long-term liabilities	4,262	9,456
Total Liabilities	55,923	56,920
Commitments and Contingencies (Note 10)		
Temporary Equity Non-controlling Interest Subject to Possible Redemption	60,000	60,000
Stockholders Deficit		
ADA-ES, Inc. stockholders deficit		
Preferred stock: 50,000,000 shares authorized, none outstanding		
Common stock: no par value, 50,000,000 shares authorized, 10,012,682 and 9,996,144 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	63,458	63,184
Accumulated deficit	(70,412)	(66,694)
Total ADA-ES, Inc. stockholders deficit	(6,954)	(3,510)
Non-controlling interest	(23,309)	(25,936)
Total Stockholders Deficit	(30,263)	(29,446)
Total Liabilities, Temporary Equity and Stockholders Deficit	**$ 85,660**	**$ 87,474**

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2012 (Restated, see Note 12)	Three Months Ended June 30, 2011 (Restated, see Note 12)	Six Months Ended June 30, 2012 (Restated, see Note 12)	Six Months Ended June 30, 2011 (Restated, see Note 12)
Revenue				
Refined coal	$ 48,351	$ 4,748	$ 63,525	$ 10,834
Emission control	3,965	1,709	6,729	3,742
CO_2 capture	195	569	477	917
Total revenues	52,511	7,026	70,731	15,493
Cost of Revenues				
Refined coal	41,908	413	53,951	588
Emission control	3,087	962	5,155	1,798
CO_2 capture	82	476	199	759
Total cost of revenues	45,077	1,851	59,305	3,145
Gross Margin before Depreciation and Amortization	7,434	5,175	11,426	12,348
Other Costs and Expenses				
General and administrative	4,040	6,847	7,679	11,664
Research and development	618	375	1,182	696
Depreciation and amortization	1,181	207	2,205	392
Total expenses	5,839	7,429	11,066	12,752
Operating Income (Loss)	1,595	(2,254)	360	(404)
Other Income (Expense)				
Net equity in net income (loss) from unconsolidated entities	132	(1,752)	168	(3,711)
Other income including interest	42	1,498	141	2,090
Interest expense	(431)		(901)	
Settlement of litigation and arbitration award, net	(469)		(753)	(39,502)
Total other income (expense)	(726)	(254)	(1,345)	(41,123)
Income (Loss) from Continuing Operations Before Income Tax Benefit and Non-controlling Interest	869	(2,508)	(985)	(41,527)
Income Tax Benefit		(10,980)		(10,980)
Net Income (Loss) Before Non-controlling Interest	869	8,472	(985)	(30,547)
Non-controlling Interest	(2,167)	(2,056)	(2,733)	(4,835)
Net Income (Loss) Attributable to ADA-ES, Inc.	**$ (1,298)**	**$ 6,416**	**$ (3,718)**	**$ (35,382)**

Net Income (Loss) Per Common Share Basic Attributable to ADA-ES, Inc.	$	(0.13)	$	0.84	$	(0.37)	$	(4.64)
Net Income (Loss) Per Common Share Diluted Attributable to ADA-ES, Inc.	$	(0.13)	$	0.82	$	(0.37)	$	(4.64)
Weighted Average Common Shares Outstanding		10,002		7,601		10,004		7,618
Weighted Average Diluted Common Shares Outstanding		10,002		7,803		10,004		7,618

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Deficit

Six Months Ended June 30, 2012 and 2011

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Accumulated Deficit (Restated)	Total ADA-ES Stockholders Deficit (Restated)	Non-controlling Interest	Total Deficit (Restated)
Balances, January 1, 2011 (Restated, see Note 12)	7,538,861	$ 39,627	$ (43,875)	$ (4,248)	$ 2,035	$ (2,213)
Stock-based compensation	66,269	454		454		454
Issuance of stock to 401(k) plan	16,276	182		182		182
Issuance of stock on exercise of options	11,134	81		81		81
Income tax impact of sale of temporary equity in joint venture		(10,980)		(10,980)		(10,980)
Equity contributions by non-controlling interest					250	250
Distributions to non-controlling interest					(35,698)	(35,698)
Expense of stock issuance and registration		(16)		(16)		(16)
Net income (loss) (restated)			(35,382)	(35,382)	4,835	(30,547)
Balances, June 30, 2011, as restated	**7,632,540**	**$ 29,348**	**$ (79,257)**	**$ (49,909)**	**$ (28,578)**	**$ (78,487)**
Balances, January 1, 2012 (Restated, see Note 12)	9,996,144	$ 63,184	$ (66,694)	$ (3,510)	**$ (25,936)**	**$ (29,446)**
Stock-based compensation	5,725	78		78		78
Issuance of stock to 401(k) plan	8,847	197		197		197
Issuance of stock on exercise of options	1,966	21		21		21
Distributions to non-controlling interest					(106)	(106)
Expense of stock issuance and registration		(22)		(22)		(22)
Net income (loss) (restated)			(3,718)	(3,718)	2,733	(985)
Balances, June 30, 2012, as restated	**10,012,682**	**$ 63,458**	**$ (70,412)**	**$ (6,954)**	**$ (23,309)**	**$ (30,263)**

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2012 (Restated, see Note 12)	Six Months Ended June 30, 2011 (Restated, see Note 12)
Cash Flows from Operating Activities		
Net loss	$ (3,718)	$ (35,382)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,205	392
Deferred tax benefit		(10,980)
Loss on disposal of assets		37
Expenses paid with stock, restricted stock and stock options	275	636
Net equity in net (income) loss from unconsolidated entities	(168)	3,711
Non-controlling interest in income from subsidiaries	2,733	4,835
Changes in operating assets and liabilities:		
Receivables, net	(7,978)	2,390
Prepaid expenses and other assets	(829)	(674)
Accounts payable	625	371
Accrued payroll, expenses and other related liabilities	(1,137)	3,586
Deferred revenue and other liabilities	(2,654)	(2,488)
Settlement awards and related accrued liabilities	(2,928)	39,502
Net cash provided by (used in) operating activities	(13,574)	5,936
Cash Flows from Investing Activities		
Investment in securities	(227)	
Principal payments received on notes receivable		1,580
Capital expenditures for equipment, patents and development projects	(6,837)	(4,974)
Net cash used in investing activities	(7,064)	(3,394)
Cash Flows from Financing Activities		
Net borrowings under line of credit	3,503	4,168
Loan to unconsolidated entity	(500)	
Sale of temporary equity in joint venture		60,000
Non-controlling interest equity contributions		250
Distributions to non-controlling interest	(106)	(35,698)
Exercise of stock options	21	81
Stock issuance and registration costs	(22)	(16)
Net cash provided by financing activities	2,896	28,785
Increase (Decrease) in Cash and Cash Equivalents	**(17,742)**	**31,327**
Cash and Cash Equivalents, beginning of period	40,879	9,696
Cash and Cash Equivalents, end of period	**$ 23,137**	**$ 41,023**

Supplemental Schedule of Non-Cash Flow Investing and Financing Activities				
Stock and stock options issued for services	$	275	$	636
Cash paid for interest	$	1,110	$	
Accrued capital expenditures	$	1,594	$	
Deposits transferred to deferred revenue	$	3,000	$	

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2012

(1) Basis of Presentation

Nature of Operations

ADA-ES, Inc. (ADA), its direct and indirect wholly-owned subsidiaries, Advanced Emissions Solutions, Inc., a Delaware corporation (ADES), BCSI, LLC, a Delaware limited liability company (BCSI LLC), ADA Intellectual Property, LLC, a Colorado limited liability company (ADA IP), all of which had no operations during the first six months 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 consolidated balance sheet as of December 31, 2011, which has been derived from restated audited financial statements, and 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, BCSI LLC, 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 three and six months ended June 30, 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/A for the year ended December 31, 2011, as amended and restated. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K and its amendments. The financial information included in these Notes relating to the Company s financial position as of December 31, 2011, and results of operations for the interim periods ended June 30, 2012 and 2011 have been restated to give effect to the accounting adjustments discussed in Note 12.

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 or sold to third parties by Clean Coal. 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 approximately $1.3 million as of June 30, 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 June 30, 2012	As of December 31, 2011
	(in thousands)	
Current assets	$ 53,358	$ 22,609
Property, equipment, and other long-term assets	1,867	3,682
Total Assets	$ 55,225	$ 26,291
Total Liabilities	$ 34,367	$ 15,988

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(in thousands)			
Net revenue	$ 67,180	$ 34,364	$ 105,972	$ 82,949
Net income-attributed to CCSS	$ 262	$ 146	$ 335	$ 199

(3) Joint Venture Investment in Clean Coal (restated)

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, ADA and NexGen entered into a transaction in which Clean Coal sold an effective 15% interest of the equity in Clean Coal to an affiliate of The Goldman Sachs Group, Inc. (GS) (see Note 12 for discussion regarding the classification as temporary equity of GS s interest obtained through this transaction). 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% 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. A third RC facility was leased to GS at the end of the first quarter of 2012.

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 June 30, 2012	As of December 31, 2011
	(in thousands)	
Primary assets		
Cash and cash equivalents	$ 3,955	$ 8,804
Accounts receivable, net	9,145	3,177
Prepaid expenses and other assets	3,312	3,028
Property, plant and equipment including assets under lease and assets placed in service, net	41,952	36,751
Primary liabilities		
Accounts payable and accrued liabilities	$ 11,901	$ 11,735
Line of credit	18,000	14,497
Deferred revenue, current and deposits	15,595	18,500
Deferred revenue, long term	1,105	

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(in thousands)			
Net revenue	$ 48,351	$ 4,723	$ 63,525	$ 10,802
Net revenue excluding RC sales	$ 10,611	$ 4,723	$ 16,013	$ 10,802
Net income	$ 3,767	$ 3,564	$ 4,752	$ 8,828

Amounts due to CCSS

Clean Coal has recorded accounts payable due to CCSS totaling $2.1 million and $604,000 as of June 30, 2012 and December 31, 2011, respectively, which are included in accounts payable in the accompanying consolidated balance sheets.

(4) Deferred Revenue and Deposits

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.

Clean Coal Deferred Rent Revenue

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. Prepaid rent of $3 million related to the third RC facility leased to GS in March 2012 will be amortized starting in the third quarter of 2012. Clean Coal received an additional $6.3 million in prepaid rent from GS related to this facility in July 2012.

Following is a table of current deferred revenue which is included in deferred revenue and other liabilities in the consolidated balances sheets and long-term deferred revenue which is included in deferred revenue in the consolidated balance sheets related to these rent revenues:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Deferred revenue, short-term	$ 3,695	$ 3,600
Deferred revenue, long-term	$ 1,105	$

The following table presents total rent revenues recognized and amortization with respect to the prepaid rents:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Rent revenue recognized	$ 10,590	$ 4,700	$ 15,980	$ 10,800
Amortization of deferred revenues included in amounts above	$ 900	$ 900	$ 1,800	$ 1,800

Clean Coal Deposits

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 June 30, 2012.

(5) Net Income (Loss) Per Share (restated)

Basic net income (loss) per share is computed based on the weighted average common shares outstanding in the period. Diluted net income (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 8) to purchase shares of common stock for the three and six months ended June 30, 2012 and for the six months ended June 30, 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 June 30, 2012	As of December 31, 2011
		(in thousands)	
Machinery and equipment	3-10	$ 4,331	$ 3,937
Leasehold improvements	2-5	1,199	624
Furniture and fixtures	3-7	828	281
RC assets under lease and placed in service	10	43,767	36,929
		50,125	41,771
Less accumulated depreciation and amortization		(6,779)	(4,651)
Total property and equipment, net		$ 43,346	$ 37,120

	Three Months Ended June 30,	Six Months Ended June 30,

	2012	2011	2012	2011
		(in thousands)		
Depreciation and amortization	$ 1,181	$ 207	$ 2,205	$ 392

(7) <u>Income Taxes (restated)</u>

Income taxes are accounted for under the asset and liability approach. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using the enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided if and when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. At each reporting date, management reviews existing income tax assessments and, if necessary, revises them to reflect changed circumstances. In a situation where recent losses have been incurred, the accounting standards require convincing evidence that there will be sufficient future taxable income to realize deferred tax assets.

In August 2012, after extensive discussions with the SEC s Division of Corporation Finance and Office of the Chief Accountant and the Company s outside tax experts, independent registered public accounting firm, Audit Committee and Board of Directors, management determined that the objective and verifiable negative evidence represented by historical losses outweighed more subjective positive evidence of anticipated future income. As a result, management determined it necessary to record a full valuation allowance against the Company s net deferred tax assets and is restating the consolidated financial statements with this Amendment for the quarterly periods ended June 30, 2012 and 2011 and as of December 31, 2011. See Note 12 for additional discussion.

The Company has provided a full valuation allowance against the deferred tax assets of $18.3 million and $18.6 million as of June 30, 2012 and December 31, 2011, respectively.

The tax benefit included in the consolidated statement of operations for the three and six months ended June 30, 2011 was recorded as a result of the sale of the equity interest in Clean Coal to GS in May 2011. Since the transaction did not result in a change in control of Clean Coal, the $11 million tax effect of the amount received from this transaction was recorded to stockholders deficit.

(8) 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, as amended (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 six months ended June 30, 2012:

	Employee and Director Options	Weighted Average Exercise Price
Options outstanding, January 1, 2012	182,942	$ 9.95
Options granted		
Options expired		
Options exercised	(1,966)	10.73
Options outstanding and exercisable, June 30, 2012	180,976	$ 9.94

Following is a table of aggregate intrinsic value of options exercised and exercisable for the six months ended June 30, 2012:

	Intrinsic Value	Average Market Price
Exercised, June 30, 2012	$ 26,437	$ 24.18
	Intrinsic Value	**Market Price**
Exercisable, June 30, 2012	$ 2,792,686	$ 25.37

Stock options outstanding and exercisable at June 30, 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	3.4

$13.80	$15.20	38,393	$	14.70	3.0
		180,976	$	9.94	3.3

No options were granted and/or vested during the three or six months ended June 30, 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 authorized 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. On July 19, 2012, the stockholders of ADA approved an amendment to the 2007 Plan to increase the number of shares presently issuable to 1.3 million and increase the number of shares authorized for issuance to 1.8 million. In addition, the stockholders also approved an increase in the number of shares with respect to which awards may be granted in any fiscal year increased from 30,000 to 50,000 and the annual grant limit for the non-management director annual grant was increased to 30,000 shares.

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 six months ended June 30, 2012:

Stock Issuance Plans

	2007 Plan	401(k) Plan	Other Stock Plans
Balance available, January 1, 2012	30,954	156,025	5,065
Evergreen addition	209,628		
Restricted stock issued to new and anniversary employees	(5,371)		
Restricted stock cancelled	510		
Stock issued based on incentive and matching programs to employees		(8,847)	
Stock issued to executives, directors and non-employees	(864)		
Balance available, June 30, 2012	234,857	147,178	5,065
Expense recognized under the different plans for the periods ended June 30, 2012:			
		(in thousands)	
three months	$ 31	$ 113	$
six months	$ 78	$ 197	$
Unrecognized expense under the different plans for the periods ended June 30, 2012:			
		(in thousands)	
three months	$ 66	$	$
six months	$ 584	$	$

A summary of the status of the non-vested shares under the 2007 Plan as of June 30, 2012 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2012	107,991	$ 6.98
Granted	5,371	24.83
Vested	(2,898)	24.02
Forfeited	(510)	11.51
Non-vested at June 30, 2012	109,954	$ 7.51

(9) Stockholders Deficit (restated)

Stockholders deficit has been restated. The restated ADA portion of stockholders deficit for the six months ended June 30, 2012 includes an $18.3 million reduction attributable to the recognition of a valuation allowance against the Company s deferred tax assets. The restated ADA portion of stockholders deficit for the fiscal year ended December 31, 2011 includes a $30 million reduction attributable to the reclassification of temporary equity and an $18.6 million reduction attributable to the recognition of a valuation allowance against the Company s deferred tax assets. See Notes 7 and 12 for additional discussion.

Non-Controlling Interest

For the periods ended June 30, 2012 and 2011, the non-controlling interest portion of stockholders deficit consists of the non-controlling interest related to Clean Coal. The amounts for the periods ended June 30 and December 31, 2011 have been restated (see Note 12 for the restatement of equity held by GS).

(10) Commitments and Contingencies

Line of Credit

Clean Coal has available a revolving line of credit with a bank for $15 million that is secured by substantially all the assets of Clean Coal (including its subsidiaries). The line of credit expires in March 2013 and requires four equal quarterly installments of principal (plus all accrued interest at such time) to be paid beginning June 30, 2012. The first installment payment of $3.7 million was made on July 3rd , one of the first business days after the June 30th due date. Borrowings under the line of credit bear interest at the higher of the Prime Rate (as defined in the related credit agreement) plus one percent (1%) or 5% per annum (effective rate of 5% at June 30, 2012).

In May 2012, an amendment was made to the line of credit agreement to increase the amount available by $3 million under an increased commitment note issued in conjunction with the line of credit. This amount is secured by a cash collateral account of $3 million held by the bank issuing the line of credit with funds received equally from ADA and NexGen. Interest is payable monthly at 3% over the rate paid by the bank on the cash collateral account and is due on or before December 1, 2012. At June 30, 2012, the outstanding balance on the line of credit and commitment note was $18 million. Borrowings under the line of credit and increased commitment note are subject to certain financial covenants applicable to Clean Coal.

Retirement Plan

ADA assumed the 401(k) plan covering all eligible employees as of January 1, 2003 which was revised in 2009, and makes matching contributions to the plan in the form of cash and its common stock. Such contributions are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Matching contributions in stock	$ 113	$ 92	$ 197	$ 182

Performance Guarantee on Emission Control Systems

Under certain contracts to supply emission control systems, the Company may guarantee certain aspects of the performance of the associated equipment for a specified period to the owner of the power plant. The Company may also guarantee the achievement of a certain level of mercury removal if certain conditions around injecting the specified quantity of a qualified AC at the specified injection rate and other plant operating conditions are met. In the event the equipment fails to perform as specified, the Company may have an obligation 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 amount that is based on estimated costs that may be incurred over the performance period of the contract. Such costs are included in the Company s accrued warranty and other liabilities in the accompanying consolidated balance sheets. Any warranty costs paid out in the future will be charged against the accrual. The adequacy of warranty accrual balance is assessed at least quarterly based on the then current facts and circumstances and adjustments are made as needed. The changes in the carrying amount of the Company s performance guaranties are as follows:

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(in thousands)			
Beginning balance	$ 546	$ 585	$ 547	$ 612
Performance guaranties accrued	16	16	17	38
Expenses paid		(54)	(2)	(103)
Ending balance	$ 562	$ 547	$ 562	$ 547

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.

Clean Coal

The Company also has certain obligations in connection with the activities of Clean Coal. The Company, NexGen and two entities affiliated with NexGen have provided GS and the GS affiliate that is the lessee for certain RC facilities with joint and several guaranties (the CCS Party Guaranties) guaranteeing all payments and performance due under the related transaction agreements. The Company also entered into a contribution agreement with NexGen under which any party called upon to pay on a CCS Party Guaranty is entitled to receive contribution from the other party equal to 50% of the amount paid.

The parent of the lessee in the RC facilities lease transactions has provided Clean Coal with a guaranty as to the payment only of all the initial term fixed rent payments and the renewal term fixed rent payments under the related leases, which, although terminable at any time, cannot be terminated without the substitution of such guaranty with another guaranty on similar terms from a creditworthy guarantor.

Arbitration Award Liabilities

As previously reported in various filings, ADA had been engaged in litigation with Norit Americas, Inc. and Norit International N.V. f/k/a Norit N.V (Norit). The Norit lawsuit initially filed in Texas was moved to arbitration, and on April 8, 2011, the arbitration panel issued an interim award holding ADA liable for approximately $37.9 million for a non-solicitation breach of contract claim and held ADA and certain other defendants liable for royalties of 10.5% for the first three years beginning in mid-2010 and 7% for the following five years based on adjusted sales of AC from the Red River plant.

On August 29, 2011, ADA and Norit entered into a settlement agreement whereby the Company paid a lump-sum payment to Norit totaling $33 million on August 30, 2011. In addition, the Company agreed to pay an additional $7.5 million over a three-year period commencing on June 1, 2012, payable in three installments without interest of $2.5 million. Under the terms of the settlement agreement, ADA is also required to pay the royalty noted above and a lesser royalty on certain treated activated carbons. Payments of amounts due under the royalty award for each quarter are payable three months after such quarter ends. On October 18, 2011, the arbitration panel endorsed and confirmed the terms of the settlement agreement.

The Company has accrued a current liability as of June 30, 2012 of $3 million which is included in settlement awards and related accrued liabilities and a long-term liability of $2.5 million which is included in settlement awards and indemnity liability in the consolidated balance sheets related to this agreement.

Indemnity Liability Settlement

As previously reported in various filings, in November 2011, ADA entered into an Indemnity Settlement Agreement whereby ADA agreed to settle certain indemnity obligations asserted against ADA related to the Norit litigation and relinquish all of its interest in ADA Carbon Solutions, LLC (Carbon Solutions). Our net investment in Carbon Solutions was accounted for under the equity method of accounting and our respective share of Carbon Solutions losses of $1.8 million and $3.8 million for the three and six months ended June 30, 2011, respectively, is included in the consolidated statements of operations. Under the terms of the Indemnity Settlement Agreement, ADA paid a $2 million payment on November 28, 2011 and agreed to make 16 additional monthly payments of $100,000 with the first one paid on November 28, 2011, and the remaining 15 payments commencing on December 1, 2011, relinquished all of its equity interest in Carbon Solutions to Carbon Solutions and amended the Intellectual Property License Agreement dated October 1, 2008 between ADA and Carbon Solutions.

The Company has accrued a current liability as of June 30, 2012 of $800,000 which is included in settlement awards and related accrued liabilities in the consolidated balance sheets related to this agreement.

(11) <u>Business Segment Information</u> (restated)

The following information relates to the Company s three reportable segments: Refined coal (RC), Emission control (EC) and CO_2 capture (CC). 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 and the U.S Government.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
			(in thousands)	
Revenue				