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 September 30, 2011

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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 October 31, 2011**
Common Stock, no par value	9,674,900

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 nine months ended September 30, 2011 originally filed with the Securities and Exchange Commission (the SEC) on November 14, 2011 (the Original Filing). This Amendment reflects the restatement of the Company s consolidated financial statements and amendment of related disclosures as of September 30, 2011 and December 31, 2010 and for the three and nine month periods ended September, 2011 as discussed below and in Note 14 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 the quarterly period ended September 30, 2011 to reflect the GS interest as temporary equity on the Company s consolidated balance sheet.

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 period ended September 30, 2011 and as of December 31, 2010.

2. Impact on the Consolidated Financial Statements

The financial statement effect of these changes on the Company s Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, Consolidated Statement of Operations for the three and nine months ended September 30, 2011, Consolidated Statement of Changes in Stockholders Equity (Deficit) for the nine months ended September 30, 2011 and Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 is discussed in Note 14 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, 2010 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 September 30, 2011.

4. <u>Amended Items</u>

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, among other things, 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)

	September 30, 2011 (Unaudited) (Restated, see Note 14)	December 31, 2010 (Restated, see Note 14)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,581	$ 9,696
Receivables, net of allowance for doubtful accounts	13,350	9,066
Investment in securities	505	505
Notes receivable		1,580
Prepaid expenses and other	1,867	415
Total current assets	25,303	21,262
Property and Equipment, at cost	18,520	8,041
Less accumulated depreciation and amortization	(3,847)	(3,235)
Net property and equipment	14,673	4,806
Goodwill, net of amortization	435	435
Intangible assets, net of amortization	334	260
Investment in unconsolidated entities	8,260	14,021
Other assets	4,911	227
Total Assets	**$ 53,916**	**$ 41,011**
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts payable	$ 10,375	$ 3,646
Accrued payroll and related liabilities	2,652	1,852
Line of credit	7,887	
Deferred revenues and deposits	12,389	5,639
Accrued expenses and other liabilities	565	244
Accrued settlement award and related liability	3,703	
Total current liabilities	37,571	11,381
Long-term Liabilities		
Accrued indemnity	29,987	27,411
Accrued warranty and other liabilities	6,511	4,432
Total long-term liabilities	36,498	31,843

Total Liabilities		74,069		43,224
Commitments and Contingencies (Note 10)				
Temporary Equity Non-controlling Interest Subject to Possible Redemption		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, 7,668,235 and 7,538,861 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively		29,737		39,627
Accumulated deficit		(83,860)		(43,875)
Total ADA-ES, Inc. stockholders deficit		(54,123)		(4,248)
Non-controlling interest		(26,030)		2,035
Total Stockholders Deficit		(80,153)		(2,213)
Total Liabilities, Temporary Equity and Stockholders Deficit	**$**	**53,916**	**$**	**41,011**

See accompanying notes.

3

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2011 (Restated, see Note 14)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011 (Restated, see Note 14)	Nine Months Ended September 30, 2010
Revenues				
Emission control	$ 3,095	$ 2,551	$ 6,837	$ 7,215
CO_2 capture	977	467	1,894	1,607
Refined coal	9,160	4,491	19,994	4,491
Total revenues	13,232	7,509	28,725	13,313
Cost of Revenues				
Emission control	1,955	1,334	3,753	4,355
CO_2 capture	636	191	1,201	599
Refined coal	3,487	158	4,075	1,170
Total cost of revenues	6,078	1,683	9,029	6,124
Gross Margin before Depreciation and Amortization	7,154	5,826	19,696	7,189
Other Costs and Expenses				
General and administrative	2,932	10,470	14,596	21,225
Research and development	506	258	1,396	639
Depreciation and amortization	216	300	608	839
Total expenses	3,654	11,028	16,600	22,703
Operating Income (Loss)	3,500	(5,202)	3,096	(15,514)
Other Income (Expense)				
Net equity in net income (loss) from unconsolidated entities	(2,050)	(2,389)	(5,761)	(5,138)
Other income including interest	71	200	2,161	2,010
Interest expense	(889)		(889)	
Arbitration award	(2,182)		(41,684)	
Total other income (expense)	(5,050)	(2,189)	(46,173)	(3,128)
Loss from Continuing Operations Before Income Tax Benefit and Non-controlling Interest	(1,550)	(7,391)	(43,077)	(18,642)
Income Tax Benefit		3,489	10,980	7,189
Net Loss Before Non-controlling Interest	(1,550)	(3,902)	(32,097)	(11,453)
Non-controlling Interest	(3,053)	(1,921)	(7,888)	(900)
Net Loss Attributable to ADA-ES, Inc.	**$ (4,603)**	**$ (5,823)**	**$ (39,985)**	**$ (12,353)**

Net Loss Per Common Share Basic and Diluted Attributable to ADA-ES, Inc.	$ (0.60)	$ (0.78)	$ (5.25)	$ (1.68)
Weighted Average Common Shares Outstanding	7,661	7,455	7,621	7,359
Weighted Average Diluted Common Shares Outstanding	7,661	7,455	7,621	7,359

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (Deficit)

Nine Months Ended September 30, 2011 and 2010

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	(Accumulated Deficit)	Total ADA-ES Stockholders Equity (Deficit)	Non-controlling Interest	Total Equity (Deficit)
Balances, January 1, 2010	7,093,931	$ 37,000	$ (12,748)	$ 24,252	$ 99	$ 24,351
Stock-based compensation	208,052	958		958		958
Issuance of stock to 401(k) plan	33,600	213		213		213
Issuance of stock for cash	143,885	1,000		1,000		1,000
Issuance of stock on exercise of options	2,250	6		6		6
Equity contributions by non-controlling interest					2,089	2,089
Distributions to non-controlling interest					(2,794)	(2,794)
Expense of stock issuance and registration		(26)		(26)		(26)
Net income (loss)			(12,353)	(12,353)	900	(11,453)
Balances, September 30, 2010	**7,481,718**	**$ 39,151**	**$ (25,101)**	**$ 14,050**	**$ 294**	**$ 14,344**
Balances, January 1, 2011 (Restated, see Note 14)	7,538,861	$ 39,627	$ (43,875)	$ (4,248)	$ 2,035	$ (2,213)
Stock-based compensation	96,411	761		761		761
Issuance of stock to 401(k) plan	21,829	264		264		264
Issuance of stock on exercise of options	11,134	81		81		81
Income tax impact of sale of temporary equity in joint venture (restated)		(10,980)		(10,980)		(10,980)
Equity contributions by non-controlling interest					250	250
Distributions to non-controlling interest (restated)					(36,203)	(36,203)
Expense of stock issuance and registration		(16)		(16)		(16)
Net income (loss) (restated)			(39,985)	(39,985)	7,888	(32,097)
Balances, September 30, 2011, as restated	**7,668,235**	**$ 29,737**	**$ (83,860)**	**$ (54,123)**	**$ (26,030)**	**$ (80,153)**

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30, 2011 (Restated, see Note 14)	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net loss	$ (39,985)	$ (12,353)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	608	859
Deferred tax benefit	(10,980)	(7,188)
Loss on disposal of assets	60	
Expenses paid with stock, restricted stock and stock options	1,025	1,171
Net equity in net loss from unconsolidated entities	5,761	5,138
Non-cash gain from joint venture partner		(1,768)
Non-controlling interest in income from subsidiaries	7,888	900
Changes in operating assets and liabilities:		
Receivables, net	(4,284)	(1,328)
Prepaid expenses and other	(1,536)	100
Accounts payable	3,495	(1,870)
Accrued payroll, expenses and other related liabilities	800	60
Deferred revenues and deposits	4,050	8,196
Accrued settlement award and related liability	8,703	
Accrued liabilities	2,576	13,100
Other liabilities	100	(615)
Net cash (used in) provided by operating activities	(21,719)	4,402
Cash Flows from Investing Activities		
Investment in securities		(105)
Principal payments received on notes receivable	1,580	
Capital expenditures for equipment, patents and development projects	(11,975)	(2,753)
Cash paid for equity contributions to unconsolidated entity		(283)
Net cash used in investing activities	(10,395)	(3,141)
Cash Flows from Financing Activities		
Net borrowings under line of credit	7,887	
Sale of temporary equity in joint venture	60,000	
Non-controlling interest equity contributions	250	2,089
Distributions to non-controlling interest	(36,203)	(2,794)
Exercise of stock options	81	6
Issuance of common stock		1,000
Stock issuance and registration costs	(16)	(26)
Net cash provided by financing activities	31,999	275
Increase (Decrease) in Cash and Cash Equivalents	(115)	1,536

Cash and Cash Equivalents, beginning of period		9,696		1,456
Cash and Cash Equivalents, end of period	**$**	**9,581**	**$**	**2,992**
Supplemental Schedule of Non-Cash Flow Investing and Financing Activities				
Stock and stock options issued for services	$	1,025	$	1,171
Cash paid for interest	$	889	$	
Accrued capital expenditures and development costs	$	3,234	$	

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2011

(1) Basis of Presentation

Nature of Operations

ADA-ES, Inc. (ADA), its wholly-owned subsidiary, ADA Environmental Solutions, LLC (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 Activated Carbon Injection (ACI) systems, contracts co-funded by the government and industry and development and lease of equipment for the refined coal (RC) market. The Company s sales occur principally throughout the United States.

The consolidated balance sheet as of December 31, 2010, 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 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, 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 and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010, 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 September 30, 2011 and December 31, 2010, and results of operations for the three and nine months ended September 30, 2011 have been restated to give effect to the accounting adjustments discussed in Note 14.

The Company prepares its 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.

Reclassifications

Certain amounts have been reclassified from the prior periods to conform to the current period financial statement presentation.

Recently Issued or Newly Adopted Accounting Standards

In September 2011, the FASB issued updated guidance allowing the use of a qualitative approach to test goodwill for impairment. The updated guidance would permit our Company to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of one of our reporting units is less than its carrying value. If we conclude that this is the case, it is then necessary for us to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the impact of our pending adoption of this update.

(2) Investments in Unconsolidated Entities

ADA Carbon Solutions, LLC

On October 1, 2008, the Company entered into a Joint Development Agreement (JDA), a Limited Liability Company Agreement (LLC Agreement), and other related agreements with Energy Capital Partners I, LP and its affiliated funds (ECP) and formed the joint venture known as ADA Carbon Solutions, LLC (Carbon Solutions) for the purposes of funding and constructing an activated carbon (AC) manufacturing facility in Red River Parish, Louisiana and similar projects. Carbon Solutions is principally engaged in the AC business and selling of AC from its manufacturing facility (the AC Facility). Among Carbon Solutions various wholly-owned subsidiaries are ADA Carbon Solutions (Red River), LLC (Red River) and Crowfoot Supply Company, LLC (Crowfoot Supply).

Under the JDA and the LLC Agreement, the Company transferred the development assets and certain liabilities relating to the production, processing and supply of AC to ADA s then wholly-owned subsidiaries Red River, Morton Environmental Products, LLC, Underwood Environmental Products, LLC and Crowfoot Supply and subsequently transferred the equity in these subsidiaries and certain contracts, goodwill and intellectual property relating to the AC supply business to Carbon Solutions as its $18.4 million initial contribution.

As of September 30, 2011, ADA owns a 21.3% interest in Carbon Solutions and ADA s net investment of $7.7 million is being accounted for under the equity method of accounting. Accordingly, ADA s share of approximately $2.1 million and $5.9 million of Carbon Solutions net loss for the three and nine months ended September 30, 2011, respectively, has been recognized in the consolidated statement of operations and its investment in Carbon Solutions has been reduced by such loss.

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) (See Note 9). As of September 30, 2011, the Company has recorded a liability to Carbon Solutions of approximately $31.2 million related to such damages and expenses incurred by Carbon Solutions. Of that amount, $1.2 million relates to royalty obligations recorded as a result of the settlement with Norit and has been classified as a current liability as a component of accrued settlement award and related liability on the accompanying consolidated balance sheets. The remaining amount of $30 million has been classified as a long-term liability and is included in accrued indemnity on the accompanying consolidated balance sheets.

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

	As of September 30, 2011	As of December 31, 2010
	(In thousands)	
Current assets	$ 20,310	$ 40,589
Property, equipment and other long term assets	368,918	325,769
Total assets	$ 389,228	$ 366,358
Total liabilities	$ 246,262	$ 214,638

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(In thousands)	
Net revenue	$ 5,238	$ 15,046
Net loss	$ 9,716	$ 26,377

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 the RC facilities leased to third parties. The Company has a 50% ownership interest in CCSS (but does not control it) and the Company s investment of approximately $547,000 as of September 30, 2011 includes its share of CCSS income since its formation and is accounted for under the equity method of accounting.

8

The following presents summarized unaudited information as to consolidated assets, liabilities and results of operations of CCSS. The consolidated financial statements of CCSS include the accounts of the third party which leases the RC facilities:

	As of September 30, 2011	As of December 31, 2010
	(In thousands)	
Current assets	$ 18,052	$ 34,534
Property and equipment	74	89
Other long-term assets	50,481	17,555
Total assets	$ 68,607	$ 52,178
Total liabilities	$ 22,209	$ 33,896

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(In thousands)	
Net revenue	$ 129,718	$ 46,769
Net income - attributed to CCSS	$ 292	$ 93

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

In November 2006, ADA licensed its RC technology on an exclusive basis to the Clean Coal joint venture, which was formed in 2006 with NexGen, to market the RC technology. 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. The operating agreement of Clean Coal required NexGen and ADA to each pay 50% of the costs of operating Clean Coal and specified certain duties that both parties were obligated to perform.

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 Notes 8 and 14 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. In conjunction with the closing of the purchase agreement, ADA, NexGen and GS entered into a Second Amended and Restated Operating Agreement and an Exclusive Right to Lease Agreement pursuant to which Clean Coal granted GS the 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 two existing facilities. As a result of the transaction, ADA owns an effective 42.5% of Clean Coal.

In September 2011, ADA, NexGen, and GS entered into a First Amendment to Second Amended and Restated Operating Agreement pursuant to which we and NexGen each transferred our 2.5% member interests in each of Clean Coal s subsidiaries back to Clean Coal in return for an increase in our interest in Clean Coal to 42.5% from 42.1%. This restructuring of ownership interests did not change the financial relationships of the parties. Since its inception, ADA has been considered the primary economic beneficiary of this joint venture and has consolidated the accounts of Clean Coal.

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

	As of September 30, 2011	As of December 31, 2010
	(In thousands)	
Primary assets of Clean Coal:		
Cash and cash equivalents	$ 4,821	$ 1,335
Accounts receivable, net	8,914	4,835
Property, plant and equipment, including assets under lease, net	14,801	5,066
Development costs	5,112	215
Primary liabilities of Clean Coal:		
Accounts payable and accrued liabilities	$ 6,891	$ 362
Line of credit	7,887	
Deferred revenue, current and deposits	11,300	3,600
Deferred revenue, long-term	900	3,600

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(In thousands)	
Net revenue	$ 8,843	$ 19,645
Net income	$ 4,668	$ 13,496

(4) <u>Deferred Revenues</u>

Deferred revenues consist of:

billings in excess of costs and earnings on uncompleted contracts;

unearned revenues on licensing of the Company s intellectual property to Arch Coal, Inc. (Arch) (as discussed further below); and

deferred rent revenue related to Clean Coal s lease of its RC facilities (also as discussed further below).

<u>Arch Coal</u>

In June 2010, the Company entered into a Development and License Agreement with Arch in which the Company licensed, on an exclusive non-transferable basis, the use of certain of its technology to enhance coal by a proprietary coal treatment process and received a non-refundable license fee of $2 million in cash. The Company expects to recognize these revenues as the technology is further evaluated and developed and Arch realizes the benefits of the technology. As part of the agreement, Arch is required to purchase from the Company the chemicals required to enhance its coal. Future revenues of approximately $333,000 are expected to be recognized during the remainder of 2011 and are included in current deferred revenues.

<u>Clean Coal</u>

In June 2010, Clean Coal executed agreements to lease its two existing 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. Thus far, in 2011, the Company has recognized $16.9 million in total rent revenues related to these RC facilities which includes $2.7 million from amortization of the initial prepaid rent payment. In August and September 2011, Clean Coal received deposits of $300,000 and $7.4 million, respectively, towards RC facilities which may be leased upon attainment of certain milestones. Future revenues expected to be recognized with respect to the prepaid rent paid are included in deferred revenues for the current period and in accrued warranty and other liabilities for the long-term period, and consist of the following:

Twelve Months Ending September 30,	Revenue to be Recognized *(In thousands)*
2012	$ 3,600
2013	900
Total	$ 4,500

(5) Net Loss Per Share

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 three and nine months ended September 30, 2011 and 2010 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:

	Life in years	As of September 30, 2011	As of December 31, 2010
		(In thousands)	
Machinery and equipment	3-10	$ 2,939	$ 2,497
Leasehold improvements	2-5	543	535
Furniture and fixtures	3-7	281	284
RC facilities including those under lease	10	14,757	4,725
		18,520	8,041
Less accumulated depreciation and amortization		3,847	3,235
Total property and equipment, net		$ 14,673	$ 4,806

	Nine Months Ended September 30: 2011	2010
	(In thousands)	
Depreciation and amortization of property and equipment	$ 608	$ 550

(7) Share Based Compensation

Since 2003, the Company 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 the Company to issue stock or options for shares of common stock to employees, Board of Directors and non-employees.

Following is a table summarizing the option activity for the nine months ended September 30, 2011:

	Director & Employee Options	Weighted Average Exercise Price
Options Outstanding, January 1, 2011	213,920	$ 10.18
Granted		
Exercised	(12,180)	(8.72)
Expired	(15,000)	(15.20)
Options Outstanding and Exercisable, September 30, 2011	186,740	$ 9.88

Following is a table of aggregate intrinsic value of options exercised and exercisable for the nine months ended September 30, 2011:

Aggregate Intrinsic Value of Options	Value	Average Market Price
Exercised, September 30, 2011	$ 178,473	$ 14.65
	Value	Market Price
Exercisable, September 30, 2011	$ 1,007,273	$ 15.27

Stock options outstanding and exercisable at September 30, 2011 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
$2.80	2,540	$ 2.80	2.1
$8.60 - $10.20	143,743	$ 8.66	4.1
$13.80 - $15.20	40,457	$ 14.66	3.8
	186,740	$ 9.88	4.0

No options were granted and/or vested during the three or nine months ended September 30, 2011.

Although the Company 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 790,372 shares of common stock, either as restricted stock grants or to underlie options to purchase shares of the Company s common stock. Remaining shares available for issuance under the 2007 Plan are shown below.

In 2009, the Company revised its 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 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 plan is determined based on the per share market value of the Company s common stock on the date of issuance.

Following is a table summarizing the activity under various stock issuance plans for the nine months ended September 30, 2011:

Stock Issuance Plans	2007 Plan	401(k) Plan	Other Stock Plans
Balance available, January 1, 2011	93,943	183,794	12,065
Evergreen addition	44,593		
Restricted stock issued to new and anniversary employees	(17,636)		
Stock issued based on incentive and matching programs to employees	(21,495)	(21,829)	
Stock issued to directors	(50,280)		(7,000)
Balance available, September 30, 2011	49,125	161,965	5,065
Expense recognized under the different plans for the periods ended September 30, 2011:			
		(In thousands)	
three months	$ 306	$ 83	$
nine months	$ 653	$ 264	$ 108
Unrecognized expense under the different plans for the periods ended September 30, 2011:			
		(In thousands)	
three months	$ 63	$	$
nine months	$ 452	$	$

A summary of the status of the non-vested shares as of September 30, 2011 is presented below:

Non-vested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2011	92,936	$ 5.46
Granted	19,008	14.79
Vested	(5,613)	(6.45)
Repurchased	(1,372)	(7.48)
Non-vested at September 30, 2011	104,959	$ 6.60

(8) <u>Temporary Equity (restated)</u>

As described in Note 3, 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 GS. Approximately 15.8 units of non-voting Class B membership interests were issued to GS for $60 million in cash. ADA and NexGen each received $30 million as a result of the sale. In conjunction with the closing of the purchase agreement, ADA, NexGen and GS entered into a Second Amended and Restated Operating Agreement and ADA and NexGen each exchanged 50 units of membership interests for approximately 42.1 voting Class A units in Clean Coal (each of which represents a 50% voting interest). Since the transaction did not result in a change in control of Clean Coal, the amount received from this transaction was originally recorded to stockholders equity (deficit), net of the tax effect of $11 million.

The terms of the Operating Agreement permit GS to require redemption of the unreturned portion of its initial $60 million investment in Clean Coal plus a return of 15% under certain limited circumstances. In June 2012, after completion of a review and evaluation of the applicable agreement and accounting authoritative literature, management determined that GS s interest in Clean Coal is more appropriately classified as temporary equity as a result of the provision in the agreement for possible redemption of the unreturned portion of GS s investment plus the required return under certain limited circumstances. As a result, this transaction has been recorded as temporary equity on the restated consolidated balance sheet as of September 30, 2011. See Notes 9 and 14 for additional discussion.

(9) Stockholders Equity (Deficit) (restated)

In September 2011, ADA, NexGen, and GS entered into a First Amendment to 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 in return for an increase in their interest in Clean Coal to 42.5% from 42.1%.

In October 2011, the Company sold 2,000,000 shares of ADA s common stock in an underwritten public offering (see Note 12).

Stockholders equity (deficit) has been restated. The restated ADA portion of stockholders deficit for the period ended September 30, 2011 includes a $30 million reduction attributable to the reclassification of temporary equity as discussed in Note 8 and a $22 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, 2010 includes a $15.7 million reduction attributable to the recognition of a valuation allowance against the Company s deferred tax assets. See Note 14 for additional discussion.

Non-Controlling Interest

The non-controlling interest portion of stockholders deficit includes such interest related to Clean Coal. As discussed in Note 8, the restated non-controlling interest portion of stockholders deficit for the period ended September 30, 2011 includes a $30 million reduction attributable to the reclassification of temporary equity. See Note 14 for additional discussion.

(10) Commitments and Contingencies

Retirement Plan

The Company 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 September 30, 2011	Nine Months Ended September 30, 2011
	(In thousands)	
Matching contributions in stock	$ 83	$ 265

Performance Guarantee on AC Injection Systems

Under certain contracts to supply ACI systems, the Company may guarantee 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 based upon the injection of a specified quantity of a qualified AC at a specified rate given other plant operating conditions. 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)		*(In thousands)*	
Beginning Balance	$ 547	$ 630	$ 612	$ 604
Warranties and guaranties accrued	44	13	82	70
Expenses paid and adjustments	(65)	(3)	(168)	(34)

Ending Balance	$ 526	$ 640	$ 526	$ 640

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.

Line of Credit

Clean Coal has available a revolving line of credit with a bank that is secured by substantially all assets of Clean Coal (including the interests it owns in its subsidiaries). The line of credit expires in March 2013 and requires quarterly interest payments. 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. The original line of credit limit of $10 million was amended in September 2011 to $15 million. At September 30, 2011, the outstanding balance on the line of credit was $7.9 million and the effective interest rate was 5% per annum. Borrowings under the line of credit are subject to certain financial covenants applicable to Clean Coal.

Litigation

As previously reported in various filings, the Company had been engaged in litigation with 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 August 29, 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 of $3.7 million which is included in accrued settlement award and related liability and a long-term liability of $5 million which is included in accrued warranty and other liabilities on the accompanying consolidated balance sheets related to the settlement agreement.

Carbon Solutions

In 2008, the Company made certain guaranties and undertook other obligations related to Carbon Solutions. 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 are as follows:

	As of September 30, 2011 *(In thousands)*
AC Facility construction contract 1	$ 13,200
Equipment contracts 2	4,500
Sales contract A guarantee 3	10,000
Sales contract B guarantee 4	1,000
Total guaranties and obligations	$ 28,700

1 The Company has guaranteed all amounts owed by Red River under its construction contract for the AC Facility. The amount shown is the approximate remaining obligation under the contract. Red River can terminate this contract at any time and would be liable for certain items. The general contractor for the AC Facility has filed a lien on the AC Facility and a statement of claim against Red River and ADA totaling $21 million related to dispute of contract costs.

2 Red River entered into four contracts with an independent equipment supplier for the purchase of certain equipment. A parent guaranty is applicable to both the Company and our partner in the joint venture. The amount shown is the approximate remaining obligation remaining under these contracts. Red River may terminate these contracts at any time and would be liable for certain items.

3

The Company has also guaranteed the obligations of Red River under an amended sales contract with a major electric power generating company. 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.

4 The Company has also guaranteed the obligations of Red River under an amended sales contract with a different major electric power generation company. 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. This is the Company s maximum aggregate liability under the guaranty.

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 any of the above noted 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.

Under the terms of the JDA, the Company is required to indemnify ECP and Carbon Solutions for certain damages and expenses they incur with respect to the Company s litigation and arbitration with Norit discussed above and described below in Part II, Item 1.

Following is a summary of contributions made by ECP:

	As of September 30, 2011	As of December 31, 2010
	(unaudited, in thousands)	
Preferred equity contributions	$ 84,865	$ 89,300
Loans and accumulated interest payable to Red River by secured notes bearing interest at 12% per annum compounded quarterly.	$ 218,356	$ 193,800

Clean Coal

The Company also has certain guaranties and obligations in connection with the activities of Clean Coal. The Company, NexGen and two entities affiliated with NexGen have provided the lessee of its RC facilities and GS 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.

(11) Income Taxes (restated)

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. 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. 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. 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 period ended September 30, 2011 and as of December 31, 2010. See Note 14 for additional discussion.

The Company has provided a full valuation allowance against the deferred tax assets of $22 million and $15.7 million as of September 30, 2011 and December 31, 2010, respectively.

The tax benefit included in the consolidated statement of operations for the nine months ended September 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.

(12) Subsequent Events

Common Stock Offering

On October 28, 2011, ADA closed on an underwritten public offering selling 2 million shares of common stock for $15.25 per share generating $28.4 million in net proceeds to ADA.

Leases

As of September 30, 2011, the Company leased the majority of the office facilities covering approximately 26,000 square feet of combined office and warehouse space in Littleton, Colorado, a suburb of Denver. The terms of these leases runs through August 31, 2012 with the option to renew.

In October 2011, the Company entered into a new lease agreement covering approximately 30,000 square feet of office space with the intent of relocating its office facilities in 2012. The lease term begins in March 2012 and expires in February 2019 with the option to renew for two additional five-year periods. The lease includes abatement of base and additional rent for the first six months and abatement of base rent for an additional eighteen months. Total expected lease payments for the lease term total approximately $2 million. In addition, the Company has temporarily leased approximately 2,700 square feet in this property complex until such time as the Company s relocation is complete.

The lease also includes a one-time tenant improvement allowance in an amount up to approximately $480,000. The Company plans to move its headquarters to the new offices once construction and improvements are completed and is considering renewing a portion of the existing leased facilities for additional office and warehouse space.

(13) Business Segment Information (restated)

The following information relates to the Company s three reportable segments: Emission Control (EC), CO2 Capture (CC) and Refined Coal (RC). All assets are located in the U.S. and, other than RC segment assets that include assets under lease and other development costs totaling $19.9 million at September 30, 2011 and $5.3 million at December 31, 2010, are not evaluated by management on a segment basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)		*(In thousands)*	
Revenue:				
EC	$ 3,095	$ 2,551	$ 6,837	$ 7,215
CC	977	467	1,894	1,607
RC	9,160	4,491	19,994	4,491
Total	$ 13,232	$ 7,509	$ 28,725	$ 13,313
Segment profit:				
EC	$ 802	$ 758	$ 1,718	$ 1,749
CC	110	259	144	927
RC	4,903	4,146	14,277	2,613
Total	$ 5,815	$ 5,163	$ 16,139	$ 5,289

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (restated)	2010	2011 (restated)	2010
	(In thousands)		*(In thousands)*	
Total segment profit	$ 5,815	$ 5,163	$ 16,139	$ 5,289
Non-allocated general and administrative expenses	(2,098)	(10,065)	(12,434)	(19,964)
Depreciation and amortization	(216)	(300)	(608)	(839)
Interest, other income and other expenses	(3,001)	200	(40,413)	2,010
Net equity in net loss of unconsolidated entities	(2,050)	(2,389)	(5,761)	(5,138)
Deferred income tax benefit		3,489	10,980	7,189
Net loss attributable to non-controlling interest	(3,053)	(1,921)	(7,888)	(900)
Net loss attributable to ADA-ES, Inc.	$ (4,603)	$ (5,823)	$ (39,985)	$ (12,353)

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, legal fees, audit fees and corporate governance expenses.

(14) Restatement of Consolidated Financial Statements

Reclassification of Equity Interest

On its Current Report on Form 8-K dated June 20, 2012, the Company reported management s determination that the Company s consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2011, September 30, 2011 and March 31, 2012 should no longer be relied upon and should be restated. Management made this determination following an assessment of the accounting treatment of the equity in Clean Coal that has been held by an affiliate of GS since May 2011.

After completion of a review and evaluation of the operating agreement of Clean Coal and the members rights and obligations thereunder and accounting authoritative literature, management determined that GS s interest in Clean Coal would be more appropriately classified as temporary equity because of a provision in the agreement that permits GS to require redemption of the unreturned portion of its initial investment plus a return of 15% under certain limited circumstances.

As a result, the Company has restated its consolidated financial statements in this Amendment for the period ended September 30, 2011. The effect of the restatement on the Company s consolidated balance sheet as of September 30, 2011 and consolidated statement of changes in stockholders equity (deficit) for the nine months ended September 30, 2011 is that GS s interest in Clean Coal has been reclassified as temporary equity rather than as part of stockholders equity (deficit). In addition, the consolidated statement of cash flows for the nine months ended September 30, 2011 has been restated to reflect the entire investment by GS as a financing activity rather than an investing activity.

Deferred Tax Assets Valuation Allowance

On its Current Report on Form 8-K dated August 14, 2012, the Company reported management s determination that the Company s consolidated financial statements contained in its Annual Reports on Form 10-K for the fiscal years ended December 31, 2010 and 2011 and its 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 should no longer be relied upon and should be restated. 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 a full valuation allowance against the Company s net deferred tax assets should have been recognized 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, the Company has restated its consolidated financial statements in this Amendment for the quarterly period ended September 30, 2011 and as of December 31, 2010.

Financial Statement Effect of the Restatement

The tables below show the effect of the above restatement on the Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, Consolidated Statement of Operations for the three and nine months ended September 30, 2011, Consolidated Statement of Changes in Stockholders Equity (Deficit) for the nine months ended September 30, 2011 and Consolidated Statement of Cash Flows for the nine months ended September 30, 2011. The restatement reflects non-cash adjustments and has no effect on previously reported operating income results or cash flows from operations. The Company also filed its amended Annual Report on Form 10-K for the fiscal year ended December 31, 2010 on October 19, 2012.

Schedule Effect of Restatement on Financial Statements

Effect on Consolidated Balance Sheets

	As Previously Reported December 31, 2010	Restatement Adjustments Deferred Tax Valuation Allowance	Temporary Equity	As Restated December 31, 2010
		(Amounts in thousands)		
Current Assets				
Cash and cash equivalents	$ 9,696	$	$	$ 9,696
Receivables, net of allowance for doubtful accounts	9,066			9,066
Investment in securities	505			505
Notes receivable	1,580			1,580
Prepaid expenses and other assets	603	(188)		415
Total current assets	21,450	(188)		21,262
Property and Equipment, at cost	8,041			8,041
Less accumulated depreciation and amortization	(3,235)			(3,235)
Net property and equipment	4,806			4,806
Goodwill, net of amortization	435			435
Intangible assets, net of amortization	260			260
Investment in unconsolidated entities	14,021			14,021
Other assets		227		227
Deferred taxes and other assets	15,696	(15,696)		
Total Assets	**$ 56,668**	**$ (15,657)**	**$**	**$ 41,011**
Total Liabilities	**$ 43,224**	$	$	**$ 43,224**
Stockholders Equity (Deficit)				
ADA-ES, Inc. stockholders equity (deficit)				
Preferred stock: 50,000,000 shares authorized, none outstanding				
Common stock: no par value, 50,000,000 shares authorized, 7,538,861 shares issued and outstanding	39,627			39,627
Accumulated deficit	(28,218)	(15,657)		(43,875)
Total ADA-ES, Inc. stockholders equity (deficit)	11,409	(15,657)		(4,248)
Non-controlling interest	2,035			2,035
Total Stockholders Equity (Deficit)	**13,444**	(15,657)		**(2,213)**
Total Liabilities and Stockholder s Equity (Deficit)	**$ 56,668**	**$ (15,657)**	**$**	**$ 41,011**

Restatement Adjustments

	As Previously Reported September 30, 2011	Deferred Tax Valuation Allowance	Temporary Equity	As Restated September 30, 2011
		(Amounts in thousands)		
Current Assets				
Cash and cash equivalents	$ 9,581	$	$	$ 9,581
Receivables, net of allowance for doubtful accounts	13,350			13,350
Investment in securities	505			505
Prepaid expenses and other	2,183	(316)		1,867
Total current assets	25,619	(316)		25,303
Property and Equipment, at cost	18,520			18,520
Less accumulated depreciation and amortization	(3,847)			(3,847)
Net property and equipment	14,673			14,673
Goodwill, net of amortization	435			435
Intangible assets, net of amortization	334			334
Investment in unconsolidated entities	8,260			8,260
Other assets				