

Texas Fifteen Property, L.L.C.
Form S-3
December 06, 2013
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As filed with the Securities and Exchange Commission on December 6, 2013

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM S-3
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

AVIV REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

27-3200673
(IRS Employer
Identification Number)

For co-registrants, please see Table of Co-Registrants beginning on the following page.

303 West Madison Street, Suite 2400,

Chicago, Illinois 60606,

(312) 855-0930

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Craig M. Bernfield

Chief Executive Officer

Aviv REIT, Inc.

303 West Madison Street, Suite 2400

Chicago, Illinois 60606

(312) 855-0930

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Steven Sutherland

Luke J. Valentino

Sidley Austin LLP

One South Dearborn Street

Chicago, Illinois 60603

(312) 853-7000

Approximate date of commencement of proposed sale of the securities to the public: From time to time after this registration statement is declared effective.

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If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) of the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) of the Securities Act, check the following box.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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
 Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum Aggregate Offering Price Per Share	Proposed Maximum Aggregate offering price	Amount of Registration fee
Primary Offering:	(1)	(2)	\$1,000,000,000 (3)	\$128,800
Common Stock of Aviv REIT, Inc., \$0.01 par value per share				
Preferred Stock of Aviv REIT, Inc., \$0.01 par value per share				
Debt Securities of Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation				
Guarantees of Debt Securities by Aviv REIT, Inc. and the Subsidiary Guarantors (4)				
Warrants of Aviv REIT, Inc. (5)				
Rights of Aviv REIT, Inc. (6)				
Units of Aviv REIT, Inc. (7)				
Secondary Offering:	5,450,576 shares (8)	\$24.48 (9)	\$133,430,101 (9)	\$17,186

Common Stock of Aviv REIT, Inc., \$0.01

par value per share

Total \$1,133,430,101 \$145,986

- (1) Not specified with respect to each class of securities to be registered pursuant to General Instruction II.D. of Form S-3 under the Securities Act of 1933, as amended (the Securities Act). This registration statement covers such indeterminate number or principal amount of common stock, preferred stock, debt securities, warrants, rights and units not to exceed \$1,000,000,000 maximum aggregate offering price, exclusive of accrued interest and dividends, if any. If any debt securities are issued at an original issue discount, this registration statement covers such greater amount as shall result in an aggregate public offering price not in excess of \$1,000,000,000, less the gross proceeds attributable to any securities previously issued pursuant to this registration statement. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder. This registration statement also covers such additional number of securities in exercise, conversion or exchange of other securities or that may become issuable as a result of any stock splits, stock dividends or similar transactions relating to the securities registered hereunder.
- (2) As permitted pursuant to Note 2 of Notes to the Calculation of Registration Fee Table of Form S-3, this information is omitted because the filing fee is calculated pursuant to Rule 457(o) under the Securities Act of 1933.
- (3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.
- (4) The term Subsidiary Guarantors refers to the co-registrants listed in the Table of Co-Registrants on the following page, other than Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation. Pursuant to Rule 457(n) under the Securities Act, no separate registration fee will be paid in respect of any such guarantors.
- (5) Warrants will represent rights to purchase shares of common stock or shares of preferred stock registered hereby. Because the warrants will provide a right only to purchase such securities offered hereunder, no additional registration fee is required.
- (6) Rights will represent rights to purchase shares of common stock or shares of preferred stock registered hereby. Because the rights will provide a right only to purchase such securities offered hereunder, no additional registration fee is required.
- (7) Each unit will be issued under a unit agreement and will represent an interest in two or more other securities, which may or may not be separable from one another.
- (8) Represents shares of common stock that may be issuable in exchange for limited partnership units (OP Units) of Aviv REIT Inc.'s operating partnership, Aviv Healthcare Properties Limited Partnership, and resold by the selling stockholders. No separate consideration will be received by Aviv REIT, Inc. for any such exchanges of OP Units or resales by the selling stockholders. This registration statement also covers such additional number of shares that may become issuable with respect to such shares of common stock as a result of any stock splits, stock dividends or similar transactions.
- (9) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act based on the average of the high and low reported sales prices of our common stock on the New York Stock Exchange on December 4, 2013.

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	IRS Employer Identification Number
Aviv Healthcare Properties Limited Partnership	Delaware	35-2249166
Aviv Healthcare Capital Corporation	Delaware	27-4536064
446 Sycamore Road, L.L.C.	Delaware	32-0380782
Alamogordo Aviv, L.L.C.	New Mexico	27-0123540
Arkansas Aviv, L.L.C.	Delaware	30-0509615
Arma Yates, L.L.C.	Delaware	27-3971035
Aviv Asset Management, L.L.C.	Delaware	30-0305067
Aviv Financing I, L.L.C.	Delaware	11-3747125
Aviv Financing II, L.L.C.	Delaware	36-4597042
Aviv Financing III, L.L.C.	Delaware	36-4641210
Aviv Financing IV, L.L.C.	Delaware	27-0836481
Aviv Financing V, L.L.C.	Delaware	27-0836548
Aviv Foothills, L.L.C.	Delaware	36-4572035
Aviv Healthcare Properties Operating Partnership I, L.P.	Delaware	11-3747120
Aviv Liberty, L.L.C.	Delaware	36-4572034
Avon Ohio, L.L.C.	Delaware	36-4601433
Belleville Illinois, L.L.C.	Delaware	32-0188341
Bellingham II Associates, L.L.C.	Delaware	11-3747130
Benton Harbor, L.L.C.	Illinois	36-4204807
Bethel ALF Property, L.L.C.	Delaware	36-4759871
BHG Aviv, L.L.C.	Delaware	36-4601432
Biglerville Road, L.L.C.	Delaware	35-2410897
Bonham Texas, L.L.C.	Delaware	30-0358809
Bradenton ALF Property, L.L.C.	Delaware	45-4444919
Burton NH Property, L.L.C.	Delaware	11-3714506
California Aviv, L.L.C.	Delaware	38-3786697
California Aviv Two, L.L.C.	Delaware	26-4117080
Camas Associates, L.L.C.	Delaware	36-4340182
Casa/Sierra California Associates, L.L.C.	Delaware	36-4572017
Champaign Williamson Franklin, L.L.C.	Delaware	36-4769741
Chardon Ohio Property, L.L.C.	Delaware	61-1722650
Chatham Aviv, L.L.C.	Delaware	27-0354315
Chenal Arkansas, L.L.C.	Delaware	04-3835270
Chippewa Valley, L.L.C.	Illinois	36-4065826
Clarkston Care, L.L.C.	Delaware	76-0802028
Clayton Associates, L.L.C.	New Mexico	36-4572014
Colonial Madison Associates, L.L.C.	Delaware	38-3741678
Columbia View Associates, L.L.C.	Delaware	36-4204809
Columbus Texas Aviv, L.L.C.	Delaware	38-3735473
Columbus Western Avenue, L.L.C.	Delaware	71-0960205

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Commerce Nursing Homes, L.L.C.	Illinois	36-4122632
Commerce Sterling Hart Drive, L.L.C.	Delaware	27-5458991
Conroe Rigby Owen Road, L.L.C.	Delaware	27-5458820
CR Aviv, L.L.C.	Delaware	20-5354773
Crooked River Road, L.L.C.	Delaware	27-5081057
Cuyahoga Falls Property, L.L.C.	Delaware	35-2419468
Darien ALF Property, L.L.C.	Delaware	30-0694838
Denison Texas, L.L.C.	Delaware	32-0173170
East Rollins Street, L.L.C.	Delaware	38-3838004
Edgewood Drive Property, L.L.C.	Delaware	32-0405276

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Effingham Associates, L.L.C.	Illinois	36-4150491
Elite Mattoon, L.L.C.	Delaware	36-4454111
Elite Yorkville, L.L.C.	Delaware	36-4454114
Falcon Four Property Holding, L.L.C.	Delaware	46-3986352
Falcon Four Property, L.L.C.	Delaware	30-0794160
Falfurrias Texas, L.L.C.	Delaware	61-1501714
Florence Heights Associates, L.L.C.	Delaware	11-3747131
Florida ALF Properties, L.L.C.	Delaware	32-0417622
Florida Four Properties, L.L.C.	Delaware	35-2456486
Fort Stockton Property, L.L.C.	Delaware	38-3918639
Fountain Associates, L.L.C.	Delaware	36-4572016
Four Fountains Aviv, L.L.C.	Delaware	36-4601434
Fredericksburg South Adams Street, L.L.C.	Delaware	27-5459311
Freewater Oregon, L.L.C.	Delaware	36-2280966
Fullerton California, L.L.C.	Delaware	36-4480527
Gardnerville Property, L.L.C.	Delaware	37-1657201
Germantown Property, L.L.C.	Delaware	45-4444655
Giltex Care, L.L.C.	Delaware	36-4572036
Glendale NH Property, L.L.C.	Delaware	61-1686455
Gonzales Texas Property, L.L.C.	Delaware	32-0403901
Great Bend Property, L.L.C.	Delaware	27-3971138
Heritage Monterey Associates, L.L.C.	Illinois	36-4056688
HHM Aviv, L.L.C.	Delaware	32-0205746
Hidden Acres Property, L.L.C.	Delaware	27-2457250
Highland Leasehold, L.L.C.	Delaware	20-2873499
Hobbs Associates, L.L.C.	Illinois	36-4177337
Hot Springs Aviv, L.L.C.	Delaware	30-0470700
Houston Texas Aviv, L.L.C.	Delaware	36-4587739
Hutchinson Kansas, L.L.C.	Delaware	51-0559326
Idaho Associates, L.L.C.	Illinois	36-4114446
Iowa Lincoln County Property, L.L.C.	Delaware	45-4445450
Jasper Springhill Street, L.L.C.	Delaware	27-5458704
Kansas Five Property, L.L.C.	Delaware	36-1647542
Karan Associates, L.L.C.	Delaware	11-3747208
Karan Associates Two, L.L.C.	Delaware	61-1514965
KB Northwest Associates, L.L.C.	Delaware	36-4572025
Kingsville Texas, L.L.C.	Delaware	37-1522939
Louisville Dutchmans Property, L.L.C.	Delaware	61-1715555
Magnolia Drive Property, L.L.C.	Delaware	30-0793756
Manor Associates, L.L.C.	Delaware	36-4572020
Mansfield Aviv, L.L.C.	Delaware	32-0183852
Massachusetts Nursing Homes, L.L.C.	Delaware	20-2873416
McCarthy Street Property, L.L.C.	Delaware	38-3855495
Minnesota Associates, L.L.C.	Delaware	36-4469552
Mishawaka Property, L.L.C.	Delaware	36-4734067

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Missouri Associates, L.L.C.	Delaware	36-4572033
Missouri Regency Associates, L.L.C.	Delaware	36-4572031
Montana Associates, L.L.C.	Illinois	36-4149849
Monterey Park Leasehold Mortgage, L.L.C.	Delaware	32-0267202
Mount Washington Property, L.L.C.	Delaware	45-5010153
Mt. Vernon Texas, L.L.C.	Delaware	35-2270167
Murray County, L.L.C.	Delaware	36-4708756

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Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	IRS Employer Identification Number
New Hope Property, L.L.C.	Delaware	61-1720871
Newtown ALF Property, L.L.C.	Delaware	27-4083571
N.M. Bloomfield Three Plus One Limited Company	New Mexico	74-2748292
N.M. Espanola Three Plus One Limited Company	New Mexico	74-2748289
N.M. Lordsburg Three Plus One Limited Company	New Mexico	74-2748286
N.M. Silver City Three Plus One Limited Company	New Mexico	74-2748283
North Royalton Ohio Property, L.L.C.	Delaware	37-1729308
Norwalk ALF Property, L.L.C.	Delaware	27-4083805
Oakland Nursing Homes, L.L.C.	Delaware	36-4572018
October Associates, L.L.C.	Delaware	36-4572030
Ogden Associates, L.L.C.	Delaware	36-4412291
Ohio Aviv, L.L.C.	Delaware	36-4597043
Ohio Aviv Two, L.L.C.	Delaware	27-5081906
Ohio Aviv Three, L.L.C.	Delaware	27-5082021
Ohio Indiana Property, L.L.C.	Delaware	36-4764623
Ohio Pennsylvania Property, L.L.C.	Delaware	32-0350654
Oklahoma Three Property, L.L.C.	Delaware	35-2444669
Oklahoma Two Property, L.L.C.	Delaware	37-1695177
Oklahoma Warr Wind, L.L.C.	Delaware	38-3886603
Omaha Associates, L.L.C.	Delaware	36-4572019
Orange ALF Property, L.L.C.	Delaware	27-4083471
Orange, L.L.C.	Illinois	36-4095365
Oregon Associates, L.L.C.	Delaware	36-4572024
Oso Avenue Property, L.L.C.	Delaware	30-0767014
Peabody Associates, L.L.C.	Delaware	36-4572029
Peabody Associates Two, L.L.C.	Delaware	27-5346222
Pennington Road Property, L.L.C.	Delaware	36-4768380
Pocatello Idaho Property, L.L.C.	Delaware	35-2449870
Pomona Vista L.L.C.	Illinois	36-4111095
Prescott Arkansas, L.L.C.	Delaware	04-3835264
Raton Property Limited Company	New Mexico	36-4111094
Ravenna Ohio Property, L.L.C.	Delaware	61-1692048
Red Rocks, L.L.C.	Illinois	36-4192351
Richland Washington, L.L.C.	Delaware	26-0081509
Riverside Nursing Home Associates, L.L.C.	Delaware	36-4340184
Riverside Nursing Home Associates Two, L.L.C.	Delaware	27-3524946
Rockingham Drive Property, L.L.C.	Delaware	35-2485732
Rose Baldwin Park Property L.L.C.	Illinois	36-4111092
Salem Associates, L.L.C.	Delaware	36-4572028
San Juan NH Property, L.L.C.	Delaware	11-3714511
Sandalwood Arkansas Property, L.L.C.	Delaware	61-1665105
Santa Ana-Bartlett, L.L.C.	Illinois	36-4212739
Santa Fe Missouri Associates, L.L.C.	Illinois	36-4165126

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Savoy/Bonham Venture, L.L.C.	Delaware	36-4572026
Searcy Aviv, L.L.C.	Delaware	38-3779442
Sedgwick Properties, L.L.C.	Delaware	36-4694767
Seguin Texas Property, L.L.C.	Delaware	35-2456377
Sierra Ponds Property, L.L.C.	Delaware	38-3888430
Skyview Associates, L.L.C.	Delaware	36-4572023
Southeast Missouri Property, L.L.C.	Delaware	27-3502072
Southern California Nevada, L.L.C.	Delaware	30-0705746
Star City Arkansas, L.L.C.	Delaware	43-2089308

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Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	IRS Employer Identification Number
Stevens Avenue Property, L.L.C.	Delaware	35-2446030
Sun-Mesa Properties, L.L.C.	Illinois	36-4047650
Texas Fifteen Property, L.L.C.	Delaware	35-2437626
Texhoma Avenue Property, L.L.C.	Delaware	35-2470607
Tujunga, L.L.C.	Delaware	36-4389732
VRB Aviv, L.L.C.	Delaware	76-0802032
Washington-Oregon Associates, L.L.C.	Illinois	36-4192347
Watauga Associates, L.L.C.	Illinois	36-4163268
Wellington Leasehold, L.L.C.	Delaware	27-3971187
West Pearl Street, L.L.C.	Delaware	81-0637081
Wheeler Healthcare Associates, L.L.C.	Texas	74-2752353
Whitlock Street Property, L.L.C.	Delaware	32-0419832
Willis Texas Aviv, L.L.C.	Delaware	37-1522942
Yuba Aviv, L.L.C.	Delaware	11-3750228

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The information in this prospectus is not complete and may be changed. We may not sell these securities and the selling stockholders may not resell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated December 6, 2013

PROSPECTUS

\$1,000,000,000

Aviv REIT, Inc.

COMMON STOCK, PREFERRED STOCK, WARRANTS, RIGHTS AND UNITS

Aviv Healthcare Properties Limited Partnership and

Aviv Healthcare Capital Corporation

DEBT SECURITIES

Guarantees of Debt Securities by Aviv REIT, Inc. and the Subsidiary Guarantors

5,450,576 Shares

Aviv REIT, Inc.

COMMON STOCK

We may offer from time to time, in one or more series:

shares of our common stock;

shares of our preferred stock;

senior and/or subordinated debt securities;

guarantees related to the debt securities;

warrants to purchase common stock and/or preferred stock;

rights to purchase common stock and/or preferred stock; and

units consisting of two or more of these classes or series of securities.

The selling stockholders named herein may offer from time to time up to 5,450,576 shares of our common stock issuable in exchange for units of limited partnership (OP Units) in Aviv Healthcare Properties Limited Partnership, our operating partnership, tendered for redemption by one or more of such selling stockholders pursuant to their contractual rights.

We, or the selling stockholders, may offer these securities in amounts, at prices and on terms determined at the time of offering. The specific plan of distribution for any securities to be offered will be provided in a prospectus supplement. If we use agents, underwriters or dealers to sell these securities, a prospectus supplement will name them and describe their compensation.

The specific terms of any securities to be offered will be described in a supplement to this prospectus. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement, together with additional information described under the heading Where You Can Find More Information, before you make an investment decision.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol AVIV. On December 5, 2013, the closing sale price of our common stock, as reported on the NYSE, was \$24.86 per share.

Investing in our securities involves a high degree of risk. See Risk Factors on page 2 and the Risk Factors section contained in the applicable prospectus supplement and in the documents we incorporate by reference in this prospectus to read about factors you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state or other domestic or foreign securities commission or regulatory authority has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is .

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the SEC, using a shelf registration process. By using a shelf registration statement, we may sell any combination of our common stock, preferred stock, debt securities, warrants, rights and units from time to time and in one or more offerings and our selling stockholders may offer and sell shares of our common stock in one or more offerings. Each time we sell securities, we will provide a supplement to this prospectus that contains specific information about the securities being offered (if other than common stock) and the specific terms of that offering. The supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the prospectus supplement. Before purchasing any securities, you should carefully read both this prospectus and any prospectus supplement, together with the additional information described under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference.

You should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement. Neither we nor the selling stockholders have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any prospectus supplement is accurate as of the date on its respective cover, and that any information incorporated by reference is accurate only as of the date of the document incorporated by reference, unless we indicate otherwise. Our business, financial condition, results of operations and prospects may have changed since those dates.

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This prospectus includes and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements that are not historical facts. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, projected growth opportunities and potential acquisitions, plans and objectives of management for future operations, and compliance with and changes in governmental regulations. You can identify forward-looking statements by their use of forward-looking words, such as may, will, anticipate, expect, believe, estimate, intend, plan, should, seek or complete, or the negative use of those words, but the absence of these words does not necessarily mean that a statement is not forward-looking.

These forward-looking statements are made based on our current expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements.

Important factors that could cause actual results to differ materially from our expectations include those disclosed under **Risk Factors** and elsewhere in this prospectus and in filings made by us with the Securities and Exchange Commission (the **SEC**). These factors include, among others:

uncertainties relating to the operations of our operators, including those relating to reimbursement by government and other third-party payors, compliance with regulatory requirements and occupancy levels;

our ability to successfully engage in strategic acquisitions and investments;

competition in the acquisition and ownership of healthcare properties;

	&n	(351)	12
Expenses paid with stock and stock options		64	166
Minority interest in loss of subsidiary		(32)	(96)
Changes in operating assets and liabilities:			
Trade receivables,		767	(906)

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net		
Prepaid expenses and other	(129)	(166)
Accounts payable	(1,220)	474
Accrued payroll and related liabilities	92	(59)
Deferred revenue and other	936	365
Net cash provided by (used in) operating activities	37	(28)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for equipment and other assets	(177)	(369)
Development project expenditures	(6,446)	(2,461)
Investment in securities	(668)	(2,651)
Proceeds from sale of securities and certificates of deposit	727	2,832
Net cash used in investing activities	(6,564)	(2,649)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Minority interest capital contribution		69
Exercise of stock options		98
Net cash provided by financing activities		167

DECREASE IN CASH AND CASH EQUIVALENTS		(6,527)		(2,510)
CASH AND CASH EQUIVALENTS, beginning of period		13,482		16,129
CASH AND CASH EQUIVALENTS, end of period	\$	6,955	\$	13,619
SUPPLEMENTAL SCHEDULE OF NON-CASH FLOW FINANCING ACTIVITIES:				
Accrued development project expenditures	\$	180	\$	628
Stock and stock options issued for services	\$	589	\$	186

See accompanying notes.

ADA-ES, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2008

(1) Basis of Presentation

ADA-ES, Inc. (ADA) and its wholly owned subsidiaries, ADA Environmental Solutions, LLC (ADA LLC), Red River Environmental Products, LLC, Bowman Environmental Products, LLC, Underwood Environmental Products, LLC and its 50% 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 utility industry. The Company generates a substantial part of its revenue from the supply of Activated Carbon Injection (ACI) Systems and contracts co-funded by the government and industry. The Company's sales occur principally throughout the United States.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X 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, its subsidiaries 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 six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

These statements should be read in conjunction with the consolidated financial statements and related notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Net (Loss) Income Per Share

Basic income (loss) per share is computed based on the weighted average common shares outstanding in the period. Diluted 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 would be anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008 <i>(In thousands, except per share data)</i>	2007	2008 <i>(In thousands, except per share data)</i>	2007
NET (LOSS) INCOME:	\$ (138)	\$ 55	\$ (306)	\$ 32
DETERMINATION OF SHARES:				
Average common shares outstanding	5,802	5,641	5,747	5,638
Incremental common shares issuable:				
Stock Options and awards		129		104
Diluted average common shares outstanding	5,802	5,770	5,747	5,742

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Basic earnings (loss) per common share	\$ (0.02)	\$ 0.01	\$ (0.05)	\$ 0.01
Diluted earnings (loss) per common share	\$ (0.02)	\$ 0.01	\$ (0.05)	\$ 0.01

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All outstanding shares of common stock were excluded for the three and six months ended June 30, 2008. For the three and six months ended June 30, 2007, 43,300 outstanding shares of common stock were excluded from the calculation, as their effect was anti-dilutive.

(3) Property and Equipment

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

	Life in years	As of June 30, 2008	As of December 31, 2007
<i>(In thousands)</i>			
Machinery and equipment	3-10	\$ 1,955	\$ 1,881
Leasehold improvements	2	504	504
Furniture and fixtures	3-7	255	237
		2,714	2,622
Less accumulated depreciation and amortization		(1,530)	(1,372)
Total property and equipment, net		\$ 1,184	\$ 1,250

Depreciation and amortization of property and equipment for the six months ended June 30, 2008 and 2007 was \$230,000 and \$156,000, respectively.

(4) Investments

Investments in available-for-sale securities are reported at their fair value in investments in securities and are summarized as follows at June 30, 2008 and December 31, 2007:

	Unrealized Gain in Accumulated Other Comprehensive Income	Unrealized Loss in Accumulated Other Comprehensive Income	Fair Value
<i>(In thousands)</i>			
June 30, 2008			
Common stock	\$ 636	\$ (592)	\$ 1,402
Debt securities	246	(264)	3,032
Total	\$ 882	\$ (856)	\$ 4,434
Less short-term portion			(1,640)
Long-term portion			\$ 2,794
December 31, 2007			
Common stock	\$ 541	\$ (249)	\$ 1,756
Debt securities	223	(201)	3,001
Total	\$ 764	\$ (450)	\$ 4,757

Less short-term portion	(1,916)
Long-term portion	\$ 2,841

(5) Stock Options

During 2003, the Company adopted the 2003 ADA-ES, Inc. Stock Option Plan (the 2003 Plan) and reserved 400,000 shares of Common Stock for issuance under the plan. In general, all options granted under the plan expire ten years from the date of grant unless otherwise specified by the Company's Board of Directors. The exercise price of an option was determined by the compensation committee of the Board of Directors at the time the option was granted and was equal to 100% of the fair market value of a share of our Common Stock on the date the option was granted. This plan was cancelled and replaced by the 2007 Equity Incentive Plan described below, and as result, 148,506 shares of Common Stock originally reserved for issuance upon exercise of options grantable under the 2003 Plan were removed from the 2003 Plan. In 2007, 3,354 options were exercised and 5,500 options were forfeited. During 2008, 8,500 options were forfeited. As of June 30, 2008, 74,612 options remained outstanding and exercisable under this plan.

During 2004, the Company adopted the 2004 Executive Stock Option Plan. This plan authorized the grant of up to 200,000 options to purchase shares of the Company's Common Stock to executive officers of the Company, all of which were granted in 2004. The option exercise price of \$8.60 per share was the market price on the date of the grant. The options are exercisable over a 10-year period based on a vesting schedule that may be accelerated based on performance of the individual recipients as determined by the Board of Directors. In February 2007, the Board of Directors authorized the vesting of 17,258 options under this plan with a fair value of \$35,000. In 2007, 7,057 previously vested options were exercised. As of June 30, 2008, 166,663 options remain outstanding of which 49,429 options were exercisable under this plan.

During 2004, the Company also adopted a plan (the 2004 Plan) for the issuance of shares and the grant of options to purchase shares of Common Stock to the Company's non-management directors. The 2004 Plan provided for the award of stock of 603 shares per individual non-management director or 4,221 shares in total, and the grant of options to purchase 5,000 shares of common stock per individual non-management director, or 35,000 in total, all of which were formally granted and issued in 2005 after approval of the 2004 Plan by the Company's shareholders. The option exercise price of \$13.80 per share for the stock options granted on November 4, 2004 was the market price on the date of the grant. The options are exercisable over a period of five years and vest over a three-year period, one-third each year for continued service on the Board. If such service is terminated, the non-vested portion of the option will be forfeited. In 2007, 985 of such options were exercised and 4,015 of options were forfeited upon the death of a director. As of June 30, 2008, 13,333 options remained outstanding and exercisable under the 2004 Plan.

During 2005, the Company adopted the 2005 Directors' Compensation Plan (the 2005 Plan), which authorized the issuance of shares of Common Stock and the grant of options to purchase shares of Common Stock to non-management directors. The 2005 Plan provides a portion of the annual compensation to non-management directors of the Company in the form of awards of shares of Common Stock and options to purchase Common Stock of the Company for services performed. Under the 2005 Plan, the award of stock is limited to not more than 1,000 shares per individual per year, and the grant of options is limited to 5,000 per individual in total. The aggregate number of shares of Common Stock reserved for issuance under the 2005 Plan totals 90,000 shares (50,000 in the form of stock awards and 40,000 in the form of options). The exercise price for options granted under the 2005 Plan is the market price on the date of grant, the shares of Common Stock underlying the option vest at a rate of no more than 1,667 shares per annual period per individual, and any unvested options that are outstanding at the date the individual is no longer a Director will be forfeited. The 2005 Plan, if not terminated earlier by the Board, will terminate ten years after the date of its adoption. In April 2008, we issued 5,000 options to a new Board member. As of June 30, 2008, 20,000 options remain outstanding of which 5,000 options were vested and exercisable under the 2005 Plan.

Following is a table of options activity for the six months ended June 30, 2008:

	Director & Employee Options	Non-Employee Options	Weighted Average Exercise Price
OPTIONS OUTSTANDING, January 1, 2008	281,358	59,000	\$ 10.45
Granted	5,000		10.20
Exercised			
Expired	(11,750)		17.54
OPTIONS OUTSTANDING, June 30, 2008	274,608	59,000	\$ 10.20
OPTIONS EXERCISABLE, June 30, 2008	142,374	59,000	\$ 10.88

No options were exercised during the six months ended June 30, 2008. The aggregate intrinsic value of options exercisable at June 30, 2008 was a loss of (\$379,000) based on a market price of \$9.00.

Stock options outstanding at June 30, 2008 are summarized in the table below:

Range of Exercise Prices	Options Outstanding		Options Exercisable		Weighted Average Exercise Price
	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Lives	
\$2.80	11,665	\$ 2.80	11,665	5.3	\$ 2.80
\$8.60 - \$10.20	233,343	\$ 8.93	111,109	5.9	\$ 9.23
\$13.80 - \$15.25	88,600	\$ 14.51	78,600	5.5	\$ 14.42
	333,608	\$ 10.20	201,374	5.7	\$ 10.88

5,000 options were granted in the six months ended June 30, 2008 to one director. The average fair value of the options granted in 2008 was approximately \$4.37 per share, and was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected volatility	63%
Risk-free interest rate	2.2%
Expected life of options (in years)	3.0
Expected dividends	

During 2007, the Company adopted the 2007 Equity Incentive Plan (the 2007 Plan), which replaced the 2003 Plan. The 2007 Plan authorizes the issuance to employees, directors and consultants of up to 600,000 shares of common stock, either as restricted stock grants or to underlie options to purchase shares of the Company's common stock. Under the 2007 Plan, awards of stock (in the form of restricted stock or shares underlying stock options) are limited to not more than 30,000 shares per individual per year with a maximum of 10,000 shares grantable in any year to non-management directors. In general, all options granted under the 2007 Plan will expire ten years from the date of grant unless otherwise specified by the Company's Board of Directors. The exercise price for options granted under the 2007 Plan will be the market price on the date of grant and the shares of common stock underlying the options will vest on the passage of specified times following the date of grant, the occurrence of one of more events, the satisfaction of performance criteria or other conditions specified by the Company's Board of Directors.

During 2007 and 2008, the Board of Directors awarded restricted stock under the 2007 Plan. All non-executive employees and certain officers were entitled to an award of restricted stock under the following conditions: (1) employees that had not received stock options upon commencement of employment received a restricted stock award based on a percentage of their starting salaries; (2) employees that had received

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stock options upon commencement of employment had the option to exchange any remaining stock options outstanding for a restricted stock award based on their starting salary; and (3) employees with five or more years of service received a restricted stock award based on a percent of their current annual salary. The purchase price for the restricted stock was \$0.01 per share and the restricted stock vests over a five-year period on an annual basis. The stock based compensation related to the restricted stock awards was determined using the fair value of the Company's stock on the date of grant, which was \$12.60. In October 2007, seven employees opted to exchange 42,700 outstanding options for 3,389 shares of restricted stock. The exchange did not result in any stock

option modification costs. Unvested shares of restricted stock are subject to repurchase by the Company upon termination of employment with the Company. In December 2007, 5,000 shares of restricted stock were awarded to a new employee upon commencement of employment in addition to the normal award based on a percentage of the employee's starting salary, which vests over a two-year period. The stock based compensation related to the restricted stock award is based on the fair market value of a share of our Common Stock on the date of the award. In the six months ended June 30, 2008, 121,916 shares of restricted stock were awarded to existing employees and a subcontractor and 2,875 shares of unvested restricted stock were repurchased due to termination of employees. As of June 30, 2008, the Company recognized \$589,000 of compensation costs related to the vesting of restricted stock during the six months then ended, a portion of which was capitalized as part of development projects.

A summary of the status of the non-vested shares as of June 30, 2008 is presented below:

Non-vested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2008	26,673	\$ 10.62
Granted	121,916	8.73
Vested	(7,978)	7.29
Repurchased	(2,875)	11.40
Non-vested at June 30, 2008	137,763	\$ 9.15

As of June 30, 2008, there was \$482,000 of total unrecognized cost related to non-vested share-based compensation arrangements granted under the Company's equity incentive plans. This cost is expected to be recognized over a 5.75 year period. The total fair value of shares underlying stock options and restricted stock which vested during the six months ended June 30, 2008 and 2007 was \$53,000 and \$176,000, respectively.

(6) Commitments and Contingencies

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Beginning Balance	\$ 369	\$ 149	\$ 309	\$ 120
Performance guarantees accrued	50	60	127	89
Expenses paid	(1)		(18)	
Ending Balance	\$ 418	\$ 209	\$ 418	\$ 209

At June 30, 2008, the Company had a standby letter of credit for \$80,000 related to an installation of an ACI system. This commitment was not recorded on the Company's consolidated balance sheet as the Company does not expect the funds to be called upon under the letter of credit.

(7) Income Taxes

We adopted the provisions of FIN 48 on January 1, 2007. Our policy is to reflect penalties and interest related to FIN 48 issues as part of income tax expense as they become applicable. No unrecognized tax benefits were recorded as of June 30, 2008. We file income tax returns in the U.S. federal and various state jurisdictions. We are no longer subject to U.S. federal and state and local examinations by tax authorities for years before 2004 and Colorado state examinations for years before 2003.

(8) Capitalized Development Costs

We are capitalizing all direct and identifiable incremental costs associated with our development efforts to build an activated carbon manufacturing facility. As of June 30, 2008, such costs totaled \$15.3 million, and are included in Development Projects on the accompanying consolidated balance sheets. Such development costs are generally deferred and either (a) expensed when it has been determined they are no longer of future value, or (b) capitalized as part of long-term assets. We anticipate finalizing definitive all in capital costs, which are expected to be approximately \$350 million in September 2008. We hope to commence site work in August 2008. The anticipated commencement of operation of the facility is expected to be in the first half of 2010. The facility and related assets will be stated at cost. We expect depreciation on those assets to be based on the straight line method and have estimated useful lives ranging from 3 to 20 years. We anticipate that maintenance and repairs will be charged to operations as incurred once the AC manufacturing facility is operating.

(9) Business Segment Information

The following information relates to the Company's two reportable segments: Mercury emission control (MEC) and Flue gas conditioning and other (FGC). 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
REVENUE:				
MEC	\$ 3,758	\$ 4,609	\$ 7,658	\$ 8,238
FGC	89	333	192	608
Total	\$ 3,847	\$ 4,942	\$ 7,850	\$ 8,846
SEGMENT PROFIT (LOSS):				
MEC	\$ 1,070	\$ 903	\$ 1,970	\$ 1,899
FGC	(88)	(93)	(155)	(90)
Total	\$ 982	\$ 810	\$ 1,815	\$ 1,809

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Total segment profit	\$ 982	\$ 810	\$ 1,815	\$ 1,809
Non-allocated general and administrative expenses	(1,220)	(1,001)	(2,462)	(2,228)
Depreciation and amortization	(125)	(83)	(237)	(167)
Interest, other income and deferred income tax (provision) benefit	225	329	578	618
Net income (loss)	\$ (138)	\$ 55	\$ (306)	\$ 32

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

(10) Recently Issued Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. Currently we have one level I asset which is available for sale securities and such amounts are reported at their fair value. The impact of adoption of SFAS 157 had no material impact on our financial statements.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159 (SFAS 159) The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objective for accounting for financial instruments. The impact of adoption of SFAS 159 had no material impact on our financial statements.

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The impact of adoption of EITF 07-3 had no material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective for fiscal years and fiscal quarters beginning on or after December 15, 2008. We are currently evaluating the impact of this pronouncement on our financial position and results of operations.

In December 2007, the FASB also issued SFAS 141 (revised 2007), Business Combinations, (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will be dependent on the future business combinations we may pursue after its effective date. Under SFAS 141R, all acquisition costs are expensed as incurred.

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

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

- (a) existing and expected future national and state environmental laws and regulations and their impact on our target markets;
- (b) rapid development of the mercury emission control market;
- (c) expected growth in the carbon dioxide control projects;
- (d) amounts and timing of future financial measures including revenues, expenses, gross margins, cash flows and financing needs;
- (e) the timing of completion of projects and future demonstrations;

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- (f) the procession of outstanding bid requests to orders between now and 2010;
- (g) the expected costs and timing for the development of and commencement of operations at a Greenfield AC manufacturing facility and offsite processing facility, including statements regarding project costs, equity and debt financing, participation of our strategic partner, availability of raw materials and facilities and securing long term customer contracts for delivery of AC;
- (h) our ability to meet a significant portion of the expected shortage in AC supply;
- (i) the appropriation of funds by Congress for DOE projects;
- (j) availability of skilled personnel; and
- (k) the immateriality of any future adjustments to previously recognized revenue as a result of DOE audits.

The forward-looking statements included in this Report involve significant risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors including, but not limited to: changing economic conditions and market demand for our products and services, changes in technology, availability of and demand for alternative energy sources, failure to satisfy performance guarantees, availability of adequate supplies of treatable carbon at reasonable prices to meet AC demand, the availability of federal funding to support our research and development work, the availability of funding needed for the construction of our new AC manufacturing plant on reasonable terms, our ability to secure necessary permits and other regulatory approvals, to negotiate and enter into ancillary agreements needed to allow us to finance, design and build the new AC plant and to obtain necessary raw materials to supply the plant, anticipated or unexpected changes in laws or regulations, competition, cost increases, results of demonstrations of ADA's and other's licensed technologies, operational difficulties, availability of skilled personnel and other risks related to the development, construction and placing into operation of an activated carbon manufacturing facility, as well as other factors relating to our business, as described in our filings with the U.S. Securities and Exchange Commission, with particular emphasis on the risk factor disclosures contained in those filings. You are cautioned not to place undue reliance on the forward-looking statements made in this Report, and to consult filings we have made and will make with the SEC for additional discussion concerning risks and uncertainties that may apply to our business and the ownership of our securities. The forward-looking statements contained in this Report are presented as of the date hereof, and we disclaim any duty to update such statements unless required by law to do so.

Overview

We provide environmental technologies and specialty chemicals to the coal-burning electric utility industry. Revenues are generated through (1) time and materials and fixed-price contracts for the emerging mercury emission control (MEC) market, several of which are co-funded by government (Department of Energy (DOE)) and industry and (2) the sale of specialty chemicals and services for flue gas conditioning (FGC) and other applications. We have also begun research and development efforts in CO₂ capture and control from coal-fired boilers, and we expect government and industry funding for this work to commence later this year and continue over at least the next several years.

Mercury has been identified as a toxic substance and, pursuant to a court order, the EPA issued regulations for its control in March 2005. A dozen States and several environmental groups had previously sued the EPA alleging that the process that resulted in the relatively lenient Clean Air Mercury Rule (CAMR) violated the Clean Air Act and that CAMR was therefore invalid. In February 2008, the United States Court of Appeals for the District of Columbia Circuit ruled in favor of the plaintiffs in that case, holding that the EPA violated the Clean Air Act in the process it used to enact CAMR, and that CAMR was therefore invalid. The Court's ruling remands the matter to the EPA for further proceedings; and the EPA filed an appeal of the ruling with the Court. In May 2008, the District of Columbia Circuit Court rejected the EPA's petition for an en banc rehearing on CAMR. The EPA says that it is evaluating its course of action. In the interim, the lack of clear regulations has generated some short-term uncertainty among utilities as to what they will be required to do to reduce mercury emissions and is impacting their ability to include mercury control costs in their rate bases. However, we believe that the likely result will be that either EPA will adopt stricter mercury emission control rules or Congress will enact new legislation requiring stricter mercury emission control within the next year or two.

In 2005, the EPA issued the Clean Air Interstate Rule (CAIR) to reduce emission of pollutants for power plants, such as sulfur dioxide and nitrogen oxides for mostly 28 eastern states. In July 2008, the U.S. Court of Appeals unanimously rejected CAIR. The vacatur of CAIR has placed additional pressure on States that adopted CAIR. The States were using CAIR to assist them in meeting federal requirements with particulate and ozone difficulties. Finally the power generators are faced with trying to recover costs for capital equipment that now has no regulatory driver.

We believe that the long-term growth of the MEC market for the electric utility industry will most likely depend on how industry chooses to respond to federal and state regulations. We anticipate this will create an even larger market for our mercury control products beyond 2010. As many as 1,100 existing coal-fired boilers may be affected by such regulations, if and when they are fully implemented. DOE's latest report issued in 2008 includes 110 existing and planned plant projects totaling 64GW of capacity. Permitting of new coal-fired plants generally requires them to meet more stringent requirements that likely include MEC. For the near-term, our revenues from this market will be dependent on (i) DOE- and industry-funded contracts mentioned above, (ii) mercury testing services, (iii) equipment sales and (iv) activated carbon sales to new and existing plants affected by the implementation of enacted regulations. State regulations and increasing numbers of consent decrees, which were unaffected by the invalidation of CAMR are the largest market driver for this part of our business. Although we expect this market to show steady growth over the next several years, we believe the most significant revenue growth will occur when final federal regulations or legislation impacts a significant portion of previously uncontrolled, existing boilers.

The market for our FGC chemicals and services has been declining over the last couple of years, and is expected to continue to decline in the near-term or at least until the recent uncertainty caused by the CAMR ruling has been eliminated. Prior to the CAMR ruling we were responding to inquiries about our product meeting the needs of the changing regulations in combination with mercury emissions. Although margins on these products are declining, they are typically higher than what we recognize for our present MEC sales and represent an important, but decreasing, contribution to our overall revenue and profit potential.

Thus far in 2008, we have signed contracts or orders to proceed for 6 ACI systems to be delivered in 2008 through 2009, bringing our total number of ACI systems installed or currently in process to 35. During the three and six months ended June 30, 2008 we recognized approximately \$2.2 million and \$4.6 million, respectively in revenue related to ACI systems sales. Unrecognized remaining revenue from ACI system contracts totaled approximately \$11.4 million as of June 30, 2008 and is expected to be recognized from 2008 through 2010. We expect to realize approximately \$4.7 million of that amount in the remaining six months of 2008. ACI systems are usually delivered from 12 to 16 months after the award, but may be in excess of 2 years for installations at new power plants. We expect the supply of ACI systems to be our dominant revenue source for 2008 and expect to bid on between 50 and 100 ACI systems through 2009 based upon current regulations. Given the uncertainties surrounding the recent court ruling and appeal concerning CAMR we are projecting that our revenues from sales of ACI systems will show little growth, if any over 2007.

We have been notified by DOE that our project, entitled "Evaluation of Solid Sorbents as a Retrofit Technology for CO₂ Capture from Coal-Fired Power Plants" has been selected for negotiations leading up to an award. We will be the prime contractor in what we expect to be an over \$2 million dollar project with the DOE's National Energy Technology Laboratory. In addition we have received commitment letters to contribute additional funding from several coal-fired power plants. The final scope of work and terms are to be worked out with DOE on the contract over the next two months. The technology is being designed to provide a means of reducing emissions of greenhouse gases from coal-fired boilers based around the use of solid sorbents. Most competing technologies use liquid solvents such as ammonia or amines to accomplish this task. We expect to begin recognizing revenue on this project starting in the fourth quarter of 2008.

We are continuing to commit resources to the development of a new "Greenfield" AC manufacturing facility. Previously, we had announced that in order to stay ahead of an expected billion dollar market, we had undertaken preliminary activities for the new facility including plant design, initial permitting, securing key lignite reserves, and third-party market analysis. Approved and funded activities completed in 2008 include: selection of a strategic partner; approval of an operating permit in Louisiana for the first two production lines; a \$35 million contract award to supply treated AC; purchase of the land for our Louisiana site; development of an interim alternate AC supply program to process and sell AC into the market; the selection of an engineering, procurement and construction (EPC) company to perform work needed to build the plant; initial equipment orders; applications for environmental permitting for additional sites; and initial site development. We are continuing the process of specifying and sourcing key capital equipment, negotiating agreements to support facility operations, including feedstock supply, and negotiating long-term customer off-take contracts to satisfy the securitization requirements for project financing. We are currently closely monitoring expenditures pending confirmation of project costs, timetable and finalization of critical agreements, including supply agreements and financing, including funding from our intended strategic partner.

In April and May 2008, we received feedback from our EPC contractor concerning a likely acquisition of the firm by a much larger engineering and construction firm, which was completed in July, about potential cost increases and schedule delays. The cost increases were due to recent escalation in both labor and worldwide commodity prices. We are working with the EPC contractor to evaluate options to minimize both cost and schedule impacts. The process is likely to take some additional time before we can finalize a contract with firm fixed pricing and the guaranteed completion dates needed to secure project financing.

We anticipate finalizing definitive "all-in" capital costs, which are expected to be approximately \$350 million in September 2008. We hope to commence site work in August 2008. The anticipated commencement of operation of the facility is expected to be in the first half of 2010.

We are planning to secure 60% of the financing, or what we expect will be approximately \$210 million, through debt financing. We are working to support the senior project debt with off-take contracts for the AC that we will be supplying through both interim sources and the new production from the plant. We expect to put in place long-term take or pay off-take contracts for AC that will have a total contract value of approximately \$250 million. In addition to the debt financing, we anticipate sourcing 40% of the

expected project funding requirements through equity. Our financing plan is based on a strategic partner contributing 50% of this amount at the project level including a matching contribution of our internal project expenditures to-date and funds from additional equity financing at the ADA-ES corporate level.

We have selected a strategic partner and are now completing the detailed investment and operating agreements to define our relationship, which we now hope to finalize during the third quarter. The intended partner is well-capitalized and has significant contracting expertise and demonstrated success at developing large projects. The intended strategic partner has agreed in principal to provide the previously mentioned additional investment of up to approximately \$40 million at the ADA corporate level through the purchase of convertible preferred shares to supplement our existing resources. In the near future, we intend to submit to our shareholders a request for their approval to issue these convertible preferred shares.

In order to supply early quantities of AC to the utility mercury control market, we acquired the assets of an AC processing facility and are finalizing the terms of a take or pay supply agreement to purchase AC beginning in 2008, with annual quantities expected to increase to over 20 million pounds during 2009 with additional amounts available for 2010. Initial capital expenditures were approximately \$412,000 plus the purchase of existing AC inventory and a facility lease, which are capitalized on our balance sheet under Development Projects. From this facility we produced our first treated batch of AC and performed a full scale power plant test that achieved greater than 90% mercury removal. A number of additional tests are under way and others scheduled to allow clients to evaluate this product. Given the expected costs of the foreign carbons to be used as feedstock plus the transportation expenses in shipping AC from overseas, this business is expected to operate at significantly lower margins than the anticipated margins for the planned Greenfield manufacturing plant facility.

We are also developing a larger offsite processing facility that would operate prior to and then in conjunction with the planned AC production facility. We are currently procuring additional AC processing equipment to enable us to expand capacity to over 30 million pounds of AC per year.

In June 2008, we signed our first long-term contract to supply treated AC to assist Southern Company Services, Inc. (Southern) for reduction of mercury emissions to meet state regulations. The five year contract requires us to provide AC with expected deliveries to start in the third quarter of 2009 with anticipated revenue of approximately \$35 million over the term of the contract. Upon notice to Southern we may provide AC from other sources for interim periods or if reasonably unforeseeable events cause a temporary outage or significant reduction at our Greenfield manufacturing facility. The contract also contains a one time option for Southern to increase AC quantities by up to 50% from their current commitments to provide AC for other plants within the Southern fleet. Under certain force majeure circumstances, Southern may reduce its minimum quantity obligations or terminate the agreement. The agreement is expressly contingent upon the financial close of debt financing for our Greenfield AC manufacturing facility prior to the end of 2008. If such financial closing does not occur by the end of 2008 the agreement can be terminated. We are continuing discussions with several other companies and negotiating significant long-term supply contracts for AC that we expect would provide sufficient cash flows to support the project debt structure.

Results of Operations 2nd Quarter and YTD 2008 versus 2nd Quarter and YTD 2007

Revenues totaled \$3.8 million and \$7.9 million for the three and six months ended June 30, 2008, respectively versus \$4.9 million and \$8.8 million for the three and six months ended June 30, 2007, respectively, representing decreases of (22%) and (10%) for the quarter and year to date, respectively. We expect overall revenues for 2008 will show little growth, if any, over 2007. Revenues in our MEC segment for 2008 decreased for the second quarter and first six months by (\$851,000) and (\$580,000), respectively (18% and 7%), and FGC and other activities decreased by (\$244,000) and (\$416,000), respectively (73% and 68%) as compared to the same periods in 2007.

Revenues from the MEC segment for the six months ended June 30, 2008 were comprised of ACI systems (61%), government and industry-supported contracts (32%), and consulting services (7%), compared to 52%, 42% and 6%, respectively, in 2007. We had contracts in progress at quarter-end for supply of ACI systems with remaining revenue of approximately \$11.4 million, and are expected to be recognized from 2008 through 2010. We expect to realize approximately \$4.7 million of that amount in the remaining six months of 2008. As mentioned above CAMR issues have resulted in utilities delaying deliveries and installations up to 3 to 6 months and canceling purchases of ACI systems. Our ACI systems revenues were \$2.2 million and \$4.6 million for the three and six months ended June 30, 2008, representing a decrease of 9% and an increase of 9% compared to those same periods in 2007. However, despite the uncertainty being caused by the CAMR remand, we continue to anticipate growth in 2008 in the MEC segment to result primarily from an increasing number of retrofit ACI systems in response to mercury emission control legislation enacted by states.

Our DOE and industry mercury demonstration contract revenues totaled \$1.0 million and \$2.5 million for the three and six months ended June 30, 2008, representing a decrease of 48% and 29% compared to 2007. Based on the scope of work to be performed as of June 30, 2008, the expected remaining unearned revenue for DOE mercury related contracts was \$1.9 million, of which \$1.1 million is expected to be recognized in the remaining six months of 2008 (including cash contributions by other industry partners). We expect the DOE funding for mercury related projects to continue to decline or be eliminated, however we expect increased funding for CO₂ technology from government and industry supported contracts will begin to replace that source of revenue for us beginning in late 2008 and continuing into 2011. As reported earlier future commitments on two of our DOE mercury contracts have not been made as of June 30, 2008 amounting to \$600,000 and it is unclear whether the funds will be allocated and paid on the contracts. Those funds remain at risk pending DOE final decision and are not included in the amounts above. In addition, in 2008 we conducted independent industry sponsored demonstrations related to mercury and CO₂ control that generated approximately \$43,000 and \$413,000, for the three months and six months ended June 30, respectively.

Our contracts with the government are subject to audit by the federal government, which could result in adjustment(s) to previously recognized revenue. We believe, however, that we have complied with all requirements of the contracts and future adjustments, if any, will not be material. In addition, the federal government must appropriate funds on an annual basis to support DOE contracts, and funding is always subject to unknown and uncontrollable contingencies.

Revenues from consulting services included in the MEC segment totaled \$480,000 and \$545,000 for the three and six months ended June 30, 2008, representing an increase of 207% and 10% compared to 2007. This increase was primarily related to two new mercury control test programs that commenced in the second quarter of 2008.

FGC and other revenues for the three and six months ended June 30, 2008 decreased by \$89,000 and \$416,000 or 73% and 68%, respectively, due to fewer shipments of chemical to continuing customers and one customer not extending an equipment lease. We expect FGC and other revenues in 2008 to be lower than 2007. Demonstrations planned for 2008 have been delayed or cancelled due to the recent CAMR ruling and we are uncertain if these demonstrations will be conducted. Sales related to our ADA-249M product, which are recorded in the FGC and other segment also declined and were \$36,000 and \$67,000 for the six months ended June 30, 2008 and 2007, respectively.

Cost of revenues decreased by \$1.0 million and \$651,000 or 30% and 11% for the three and six months ended June 30, 2008, respectively from the same periods in 2007 primarily due to changes in our business mix, improved efficiency in our ACI system production, a decline in the amount of direct work being performed on DOE contracts and declining chemical sales. Gross margins were 38% and 35% for the three and six months ended June 30, 2008 respectively, as compared to 31% and 35% for the same periods in 2007. The increase in the gross margin for the quarter was a result of more industry supported contracts being performed than last year and the impact of cost saving measures related to the design and engineering of our ACI systems. For the near term, we expect the sales of mercury control systems to continue to represent an increasing source of revenues, for which the anticipated gross margins are lower than both of our specialty chemical sales and our DOE demonstration work that involves industry cost sharing. As a result, we expect the gross margin for fiscal year 2008 to approximately equal the 31% margin realized in fiscal year 2007.

Cost of revenues for the MEC segment decreased by \$806,000 and \$391,000 or 26% and 7% for the three and six months ended June 30, 2008, respectively, from the same periods in 2007, primarily from reduced amount of direct DOE work being performed, an increase in commercial consulting that generally has higher margins than the ACI systems sales and a decrease in outsourcing portions of our ACI systems. Enhanced design and engineering in our ACI system group has allowed us to adopt procedures to complete systems in-house at lower costs. Gross margins for this segment were 38% and 36% for the three and six months ended June 30, 2008 respectively, as compared to 32% and 36% for 2007. We are continuing our efforts to decrease costs and improve efficiencies to maintain acceptable margins from our ACI system sales. Competition in the ACI systems sales has required, and we expect may continue to require us to lower our margins to maintain our desired market share. In the short term, we anticipate our commercial mercury consulting services will increase and positively enhance our margins. Looking further ahead, we expect CO₂ government and industry supported demonstration work and sales of activated carbon to also positively affect margins.

Cost of revenues for the FGC and other segment decreased by \$214,000 and \$260,000 or 72% and 60% for the three and six months ended June 30, 2008, respectively, from the same periods in 2007. Gross margins for this segment were 8% and 11% for the three and six months ended June 30, 2008 respectively, as compared to 11% and 29% for 2007. The decrease in gross margins from 2008 to 2007 is a result of increased costs related to the current joint venture activities of Clean Coal, a greater portion of FGC sales of a product we license from ARKAY Technologies, which carries a lower margin than historical FGC sales, and overall lower chemical sales. FGC and other revenues comprised 2% of total revenues for the six months ended June 30, 2008, compared to 7% for the six months ended June 30, 2007. The changes in the FGC segment profits for the six months ended June 30, 2008 from the six months ended June 30, 2007 are a result of the same factors mentioned above.

For the MEC segment we expect the sale of ACI systems to continue to represent an increasing source of revenues, for which the anticipated gross margins are lower than our contract R&D work. As a result and based on our expected revenue mix, we expect the gross margin for fiscal year 2008 to decline from the levels achieved for the six months ended June 30, 2008 to approximately equal gross margins realized in 2007.

General and administrative expenses increased by \$268,000 and \$301,000 or 22% and 11% to approximately \$1.5 million and \$3.0 million for the three and six months ended June 30, 2008, respectively, from the same periods in 2007. The dollar increase in the three months ended June 30, 2008 resulted primarily from increased administrative and overhead wage costs (\$108,000), increased facilities and office costs (\$56,000), wage related taxes and benefits (\$51,000), increased legal fees (\$43,000) and general costs (\$15,000). The dollar increase in the six months ended June 30, 2008 resulted primarily from increased administrative wage costs (\$230,000), wage related taxes and benefits (\$142,000) and increased legal costs (\$60,000) offset by a decrease in Sarbanes-Oxley (SOx) compliance costs and miscellaneous consulting costs of \$125,000. We have been hiring personnel in response to the growth we have realized in the past and expect to achieve in 2008. Adequate resources of skilled labor have been and are expected to be available to meet anticipated needs.

We incur R&D expenses not only on direct activities we conduct but also by sharing a portion of the costs in the government and industry programs in which we participate. Direct research and development expenses decreased by \$187,000 and \$308,000 or 95% and 96% for the three and six months ended June 30, 2008 as compared to 2007 as a result of a decrease in DOE contract activities. Future consolidated direct research and development expenses, except for those anticipated to be funded by the DOE contracts and others that may be awarded, are expected to grow at a rate of about 10% annually for the next several years. Of the amount incurred in the six months ended June 30, 2008, only \$14,000 was directly related to DOE contracts as compared to \$322,000 in the same period in 2007.

MEC segment profits increased by \$167,000 and \$71,000 or 18% and 4% for three and six months ended June 30, 2008, respectively from the same periods in 2007. The increase was primarily a result of higher margins on the remaining DOE contracts and ACI systems even with lower sales for the period. FGC and other segment losses increased by \$5,000 and \$65,000 or 5% and 72% for the three and six months ended June 30, 2008, respectively, from the same periods in 2007. The increases were primarily the result of lower margin chemical sales and decreasing segment revenues.

We had net interest and other income of \$122,000 and \$291,000 for the three and six months ended June 30, 2008, as compared to \$268,000 and \$534,000, respectively from the same periods in 2007. Interest and other income decreased in 2008 due to our increased funding commitments on our development projects and other activities, which has resulted in lower invested balances and lower interest rates.

Other income and expense includes our minority interest in the loss in Clean Coal, our joint venture with an affiliate of NexGen Resources Corporation, which is pursuing Refined Coal (RC) opportunities. The minority interest in the loss of Clean Coal amounted to \$15,000 and \$32,000 for the three and six months ended June 30, 2008. Our net operating loss for the period ended June 30, 2008 includes net costs of \$160,000 related to our RC efforts and \$65,000 loss of the joint venture. We incurred an additional \$104,000 of expenses related to our direct Clean Coal joint venture activities in the six months ended June 30, 2008. If Clean Coal succeeds in obtaining approval for the Section 45 tax credits, NexGen has the right to maintain its 50% interest by paying us an additional \$4.0 million, in eight quarterly payments of \$500,000 each, beginning in the quarter Clean Coal receives such qualification. NexGen is not obligated to make those payments, but if it does not do so once Clean Coal has qualified for the Section 45 tax credits, it will forfeit a part of its interest in Clean Coal in direct proportion to the amount of the \$4.0 million that it elects not to pay, if any.

The income tax benefit for the six months ended June 30, 2008 represents our expected effective tax rate of approximately 46% for 2008, which is greater than the rate of 27% we recognized for the six months ended June 30, 2007. The change in effective rates is primarily the result of larger impact of R&D tax credits for six months ended June 30, 2008 as compared to the amount estimated for the six months ended June 30, 2007. Our income tax rate does not include any Section 45 tax credits from Clean Coal.

Unrealized loss, net of tax, on investments in debt and equity securities amounted to \$60,000 and \$181,000 for the three and six months ended June 30, 2008 as compared to an unrealized loss of \$5,000 and \$1,000 for the same periods in 2007. The losses recorded in 2008 and 2007 are the result of decreases in the market value of our equity investments.

Liquidity and Capital Resources

We had positive working capital of \$7.1 million as of June 30, 2008, compared to working capital of \$14.1 million at December 31, 2007. The decrease is a result primarily from our continued investment in our development projects and fluctuations in operating assets and liabilities in the normal course of business. In addition to working capital, we had long-term investments in securities, accounted for as available-for-sale investments, of approximately \$2.8 million as of June 30, 2008 and December 31, 2007, respectively. We expect to use a portion of such investments and cash on hand to fund growth of the Company, which is expected to include development projects for AC production and may include expansion of product offerings and strategic acquisitions. We believe that existing and expected future working capital, will be sufficient to meet our anticipated operating needs in 2008. However, we cannot be certain that the positive operating cash flow that we have achieved thus far in 2008 will continue, and it is possible that we could be required to expend some of our current working capital to fund operations. Our plans for the anticipated future need for expanded AC production will require significant additional funding.

During the six months ended June 30, 2008, we expended an additional \$6.4 million, bringing our total costs on our planned AC manufacturing facility to \$15.3 million. We are continuing to pursue our plan to build a new AC manufacturing facility and related activities, which costs have been deferred and are classified on the balance sheet and included with Development Projects. Such development costs are generally deferred and either (a) expensed when it has been determined they are no longer of future value, or (b) capitalized as part of long-term assets and then subject to future impairment evaluations.

As noted above, we have embarked on an aggressive plan to build a new AC manufacturing facility, which we have estimated to have an all-in, total cost of approximately \$350 million for a facility with one production line that will be capable of producing approximately 125 to 175 million pounds of AC per year. The selected EPC contractor is further updating both cost and schedule for the planned facility in light of increased costs and their recent acquisition noted above. The development plan includes enlisting the support of a strategic partner to participate in 50% of the equity-funded project development costs, which we expect will amount to approximately \$140 million in total equity funding for the first facility with a single production line. We expect to provide the balance of the equity funding through contribution of project costs we have expended to date and funds from the sale of our equity securities. We hope to sign definitive agreements with our EPC contractor and strategic partner in the third quarter of 2008 and would expect the strategic partner to begin funding project costs at that time. We expect the balance of the project funding, which we currently estimate to be \$210 million, to come from debt financing. We have no binding commitments from any person to provide financing at this time, and we are not certain whether the financing will be available to us as needed on acceptable terms. Our inability to achieve any one of what we currently see to be the critical requirements for the project would likely make it difficult for us to complete the project. We are currently funding the time-critical and essential project expenditures while working to confirm current cost estimates and schedule, and finalize of certain critical contracts for feedstock supply, engineering, procurement and construction and strategic partner participation.

Our principal source of liquidity is our existing working capital. We had a positive, albeit minor, operating cash flow for the six months ended June 30, 2008. This trend is expected to continue for the remainder of 2008. Any future positive operating cash flow is dependent upon the success in maintaining a significant share of the market for mercury control equipment, supplying AC to the market place by the end of 2008 and continuation of chemical sales and operations of FGC.

Our trade receivables balance is comprised of both amounts billed to customers as well as unbilled revenues that have been recognized. As of June 30, 2008 our trade receivables balance was \$3.7 million which was offset by billings in excess of recognized income of \$1.7 million or a net of \$2.0 million as compared to a net of \$3.5 million at December 31, 2007. Our trade receivables balance was lower at June 30, 2008 as compared to December 31, 2007, due to the nature and timing of our billing milestones for our ACI systems contracts.

Under our defined contribution and 401(k) pension plan, we match up to 7% (in 2008 as compared to 5% in prior years) of salary amounts deferred by employees in the Plan and may contribute certain other amounts as determined annually by our Board of Directors. During the six months ended June 30, 2008 and 2007, we recognized \$99,000, net of forfeitures and \$76,000, respectively, of matching expense. This expense is expected to amount to approximately \$212,000 in 2008. In the past, we have also made discretionary awards to employees, a portion of which was contributed to the Plan. During the six months ended June 30, 2008 and 2007, we accrued approximately \$97,000 and \$46,000, respectively, for such payments based on results for the respective quarters.

We recorded a net current deferred tax asset of \$233,000 and a long term deferred tax asset of \$344,000 at June 30, 2008, as compared to net current deferred tax liabilities of (\$117,000) and net long term deferred tax assets of \$237,000 on December 31, 2007, respectively. We believe that it is more likely than not that our deferred tax assets will be realized in the future. The change is a result of estimated payments made during the first quarter, larger impact of R&D tax credits and additional anticipated tax benefit which we expect to arise from 2008 activities, excluding any Section 45 tax credits related to Clean Coal.

Cash flow provided by operations totaled \$37,000 for the first six months of 2008 compared to a use of (\$28,000) for the same period in 2007. Cash from operations in 2008 increased from 2007 primarily as a result in an increase in deferred revenues and other liabilities of \$936,000, related to billings in excess of recognized income for our ACI system sales, and a decrease in our accounts receivable of \$767,000, which were offset by a decrease in accounts payable of (\$1.2) million. These changes in our operating assets and liabilities correspond to our overall change in mix and growth in business. In addition, adjustments related to our net loss of (\$306,000) for non-cash operating activities included our deferred tax benefit of (\$351,000), which was offset by the non-cash charges for depreciation and amortization of \$237,000.

Net cash used in investing activities was \$6.6 million for the first six months of 2008 compared to \$2.6 million for the same period in 2007. The 2008 cash flow used represents amounts invested in our development activities to build an AC manufacturing facility of \$6.4 million and other capital expenditures of \$177,000. We expect this trend to continue as we move forward with development of our AC manufacturing facility.

No cash was provided or used in financing activities for the first six months of 2008 compared to cash provided of \$167,000 for the same periods in 2007, of which \$98,000 related to exercise of stock options and \$69,000 was for a minority interest capital contribution. As mentioned above we expect to require additional debt and equity financing to support future anticipated growth, potential acquisitions and our plans to build AC manufacturing facilities.

Critical Accounting Policies and Estimates

Revenue Recognition ADA follows the percentage of completion method of accounting for all significant contracts excluding government contracts and chemical sales. The percentage of completion method of reporting income takes into account the estimated costs to complete and estimated gross margin for contracts in progress. We recognize revenue on government contracts based on the time and expenses incurred to date.

Capitalization of Development Costs - We are capitalizing all direct and identifiable incremental costs associated with our development efforts to build an AC facility. Such development costs are generally deferred and either (a) expensed when it has been determined they are no longer of future value, or (b) capitalized as part of long-term assets and then subject to future depreciation expense and impairment evaluations.

Significant estimates are used in preparation of our financial statements and include (1) our allowance for doubtful accounts, which is based on historical experience; (2) our valuation and classification of investments as available-for-sale securities, which is based on estimated fair value; and (3) our percentage of completion method of accounting for significant long-term contracts, which is based on estimates of gross margins and of the costs to complete such contracts. In addition, amounts invoiced for government contracts are subject to change based on the results of future audits by the federal government. We have not experienced significant adjustments in the past, and we do not expect significant adjustments will be required in the future. We also use our judgment to support the current carrying value of goodwill and other intangible assets of \$2.3 million on the consolidated balance sheets. Management believes the carrying value of other recorded intangibles is not impaired, although market demand for our products and services could change in the future, which could require a write-down in recorded values. As with all estimates, the amounts described above are subject to change as additional information becomes available, although we are not aware of anything that would cause us to believe that any material changes will be required in the near term.

Under certain contracts the Company may grant performance guarantees or equipment warranties for a specified period and the achievement of certain plant operating conditions. In the event the equipment fails to perform as specified, the Company is obligated to correct or replace the equipment. Estimated warranty costs are recorded at the time of sale based on current industry factors. The amount of the warranty liability accrued reflects our best estimate of expected future costs of honoring our obligations under the warranty section of each contract. We believe the accounting estimate related to warranty costs is a critical accounting estimate because: changes in it can materially affect net income; it requires us to forecast the amount of equipment that might fail to perform in the future and requires a large degree of judgment.

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 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.

Deferred tax assets may be reduced by a valuation allowance 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 change in laws can have a material effect on the amount of income tax we are subject to. We are not aware of anything that would cause us to believe that any material changes will be required in the near term.

Effective January 1, 2006, we adopted SFAS No. 123R (revised), *Share-Based Payment*, or SFAS 123R, which requires all share-based payments, including grants of stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based upon their respective grant date fair values. Under this standard, the fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our stock options and stock purchase rights. The Black-Scholes model meets the requirements of SFAS 123R but the fair values generated by the model may not be indicative of the actual fair values of our equity awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life and risk-free interest rate. We use an implied volatility for traded options on our stock as the expected volatility assumption required in the Black-Scholes model. We use a historical volatility rate on our stock options. The fair value of our restricted stock is based on the closing market price of our common stock on the date of grant. If there are any modifications or cancellations of the underlying securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or we assume unvested securities in connection with any acquisitions, our stock-based compensation costs will be increased by the additional unearned costs resulting from those additional grants or acquisitions.

Recently Issued Accounting Policies

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. Currently we have one level I asset which is available for sale securities and such amounts are reported at their fair market value. The impact of adoption of SFAS 157 had no material impact on our financial statements.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159 (SFAS 159) *The Fair Value Option for Financial Assets and Financial Liabilities* . SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objective for accounting for financial instruments. The impact of adoption of SFAS 159 had no material impact on our financial statements.

In June 2007, the FASB also ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The impact of adoption of EITF 07-3 had no material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51. SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective for fiscal years and fiscal quarters beginning on or after December 15, 2008. We are currently evaluating the impact of this pronouncement on our financial position and results of operations.

In December 2007, the FASB also issued SFAS 141 (revised 2007), *Business Combinations* , (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will be dependent on the future business combinations we may pursue after its effective date. Under SFAS 141R, all acquisition costs are expensed as incurred.

Item 4. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation and under supervision of our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as defined in the Securities Exchange Act of 1934 Rules 13a-15 (e) and 15d-15 (e), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are adequate and effective to ensure that material information related to our financial statements are made known to them by others in a timely manner, particularly during the period in which this quarterly report on Form 10-Q was being prepared, and that no changes are required at this time.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 5. Submission of Matters to a Vote of Security Holders.**

The annual meeting of our shareholders was held on June 18, 2008. At the meeting, at which a quorum of the requisite number of shares under our bylaws for the conduct of business was present in person or by proxy, stockholders voted upon the following actions:

1. Election of Directors	For	Withheld
Mr. Caruso	4,125,994	222,492
Dr. Durham	4,130,841	217,645
Mr. Eaves	4,128,176	220,310
Mr. Derek Johnson	4,124,766	223,720
Mr. Ron Johnson	4,126,851	221,635
Mr. Marcum	4,125,801	222,685
Mr. McKinnies	4,109,506	238,980
Mr. Smith	4,126,216	222,270
Mr. Swanson	4,126,196	222,290

2. Proposal to ratify the selection of Ehrhardt Keefe Steiner & Hottman PC as the Company's Independent Auditor for fiscal year ending December 31, 2008	For	Against	Abstained
	4,283,824	21,045	43,617

Item 6. Exhibits

- 10.46 Agreement for the Purchase of Activated Carbon Southern Company Services, Inc June 5, 2008
- (a) Master Agreement for the Purchase of Activated Carbon
- (b) General Conditions of the Contract for the Purchase of Chemical and/or Gas Products
- (c) Special Supplemental Conditions Contract**
- 31.1* Certification of Chief Executive Officer of ADA-ES, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)
- 31.2* Certification of Chief Financial Officer of ADA-ES, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)
- 32.1* Certification of Chief Executive Officer of ADA-ES, Inc. Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Chief Financial Officer of ADA-ES, Inc. Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- * These certifications are furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.
- ** Portions of this exhibit have been omitted pursuant to a request for confidential treatment

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADA-ES, Inc.
Registrant

Date: August 6, 2008

/s/ Michael D. Durham
Michael D. Durham
President and Chief Executive Officer

Date: August 6, 2008

/s/ Mark H. McKinnies
Mark H. McKinnies
Chief Financial Officer

EXHIBIT INDEX

- 10.46 Agreement for the Purchase of Activated Carbon Southern Company Services, Inc June 5, 2008
- (a) Master Agreement for the Purchase of Activated Carbon
 - (b) General Conditions of the Contract for the Purchase of Chemical and/or Gas Products
 - (c) Special Supplemental Conditions Contract**
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