

CRYPTOLOGIC LTD
Form 6-K
January 09, 2012

FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of January 2012

Commission File Number 000-30224

CRYPTOLOGIC LIMITED
Marine House, 3rd Floor
Clanwilliam Place
Dublin 2, Ireland

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)

DOCUMENTS FILED

See the Exhibit Index hereto for a list of the documents filed herewith and forming a part of this Form 6-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CRYPTOLOGIC LIMITED

Date: January 9, 2012

/s/ John Loughrey
John Loughrey
Vice-President, General Counsel and Company
Secretary

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release dated January 9, 2012

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

Principles of Consolidation The consolidated financial statements include the accounts of ADA, ADES, ADA IP, BCSI, ADA LLC and Clean Coal and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents The Company considers all highly liquid debt instruments with purchased maturities of three months or less to be cash equivalents. The Company maintains the majority of its cash in certificates of deposit and money market accounts. The amount on deposit at December 31, 2012 was held in three commercial banks and deposits were in excess of the insurance limits of the Federal Deposit Insurance Corporation.

Receivables and Credit Policies Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30-45 days from the invoice date. Management reviews trade receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The balance was as follows:

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Receivables balance	\$ 9,217	\$ 4,919
Unbilled revenues balance	1,808	995
Total	\$ 11,025	\$ 5,914

Patents Intangible assets include patents and are included in other assets in the consolidated balance sheets.

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Cost of patents	\$ 562	\$ 436
Less accumulated amortization	(93)	(82)
Total	\$ 469	\$ 354

	2012	Year ended December 31,	
		2011	2010
		(in thousands, except years)	
Amortization expense of intangible assets for the year	\$ 12	\$ 11	\$ 10
Amortization life in years of patents	17	17	17
Anticipated annual amortization expense over the next five years	\$ 11		
Weighted average amortization period in years	11		

Goodwill The Company reviews the recoverability of goodwill at least annually as of December 31 and any time business conditions indicate a potential change in recoverability. During 2012, 2011 and 2010, we did not recognize any goodwill impairment charges.

Investments Investments in securities represent certificates of deposit which are recorded at fair value. All of these certificates of deposit are pledged as security for letters of credit in the same amount as the investments.

Investment in Unconsolidated Entity On January 20, 2010, the Company, together with NexGen Resources Corporation (NexGen), formed Clean Coal Solutions Services, LLC (CCSS) for the purpose of operating the RC facilities leased or sold to third parties. The Company has a 50% ownership interest in CCSS (but does not control it) and accordingly has accounted for the investment under the equity method of accounting. The Company evaluates this investment annually for other than temporary declines in value. At December 31, 2012 and 2011, no such declines existed on this investment.

Property and Equipment Property and equipment is stated at cost. Depreciation on assets is provided using the straight-line method based on estimated useful lives ranging from three to ten years. Maintenance and repairs are charged to operations as incurred and maintenance and repair of the leased RC facilities are the responsibility of CCSS under agreements with the lessee or owners of the facilities. When assets are retired, or otherwise disposed of, the property accounts are relieved of costs and accumulated depreciation and any resulting gain or loss is credited or charged to income.

Leasehold Improvements Leasehold improvements are recorded at cost and included with property and equipment. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Warranty Costs Under certain ACI and DSI systems contracts, the Company may grant performance guaranties for a specified period and the achievement of certain system 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 experience factors.

Impairment of Long-Lived Assets (other than Goodwill) The Company performs an evaluation of the recoverability of the carrying value of its long-lived assets to determine if facts and circumstances indicate that the carrying value of assets or intangible assets may be impaired and if any adjustment is warranted. There were no indicators of impairment for 2012, 2011 and 2010.

Fair Value of Financial Instruments The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, line of credit, accounts payable, deposits and accrued expenses approximate fair value due to the short maturity of these instruments.

Revenue Recognition The Company follows the percentage of completion method of accounting for all significant contracts which have a fixed contract price excluding government contracts and coal and chemical sales. The percentage of completion method of reporting income takes into account the percent of work completed and overall revenue for contracts in progress. The Company recognizes revenue on government contracts based on the time and expenses incurred to date.

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Costs in excess of billings included in accounts receivable, net	\$ 1,623	\$ 452
Billings in excess of recognized income included in deferred revenue	\$ 3,730	\$ 173

RC revenues are recognized when RC production and coal sales occur and when rental income has been earned. Chemical sales are recognized when products are shipped to customers. Based upon historical trends no reserve has been established for any returns. RC is typically produced by adding proprietary chemicals to coal at the customer's site and title passes to the customer when the production process is complete. RC rental income is generally comprised of two components; the fixed component is earned with the passage of time and the contingent component is earned upon the production of RC. Chemicals are shipped FOB shipping point and title passes to the customer when the chemicals are shipped. The Company's sales agreements for chemicals do not contain a right of inspection or acceptance provision and products are generally received by customers within one day of shipment. The Company has had no significant history of non-acceptance, or of replacing goods damaged or lost in transit.

Consulting revenue is recognized as services are performed and collection is assured.

Cost of Revenues Costs of revenues include all labor, fringe benefits, subcontract labor, chemical and coal costs, materials, equipment, supplies and travel costs directly related to the Company's production of revenue.

General and Administrative General and administrative costs include personnel related fringe benefits, sales and administrative staff labor costs, legal expenses, facility costs and other general costs of conducting business.

Penalties and Interest Costs Under certain circumstances, the Company might have a penalty or interest charge that is classified as an expense and is shown in our general and administrative costs. The cost is charged in the period the Company was notified of the charge.

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Penalty and interest costs	\$ 9	\$ 35	\$ 1

Research and Development Costs Research and development costs are charged to operations in the period incurred.

Income Taxes The Company accounts for income taxes under the liability method whereby deferred tax assets and liabilities are determined based on tax rates and laws enacted as of the date of the consolidated balance sheets. A valuation allowance is provided if and when deferred tax assets are not expected to be realized. At each reporting date, management reviews deferred tax assets and liabilities and any related valuation allowance and, if necessary, revises them to reflect changed circumstances. In a situation where recent losses have been incurred, the accounting standards require convincing evidence that there will be sufficient future taxable income to realize deferred tax assets. Clean Coal is a flow-through tax entity and therefore the owners are taxed or receive tax benefits based on their respective ownership interests.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Net Loss Per Share Basic EPS is calculated by dividing the loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated using the same numerator as basic EPS and further reflects the potential dilution that could occur if outstanding stock options were exercised. No stock options were included in the calculations for 2012, 2011 or 2010 as their inclusion would be anti-dilutive due to the Company's net loss per share for those periods.

Stock-Based Compensation The Company records equity compensation to employees at its estimated fair value.

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Stock based compensation before tax	\$ 541	\$ 1,135	\$ 1,306
Stock based compensation after tax	\$ 340	\$ 714	\$ 833
Basic and diluted loss per share	\$ (0.04)	\$ (0.09)	\$ (0.11)

Use of Estimates The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

The Company makes significant assumptions concerning:

the impairment or lack thereof of and the remaining realizability of its long-lived assets including equity method investments, goodwill and intangibles;

estimates of certain overhead and other rates on research contracts with the U.S. Government, which are subject to future audits;

fair value of stock options;

warranty costs;

estimated future royalty obligations associated with our settlement with Norit Americas, Inc. (Norit);

the percentage of completion method of accounting for significant long-term fixed price contracts, which is based on estimates of gross margins and of the costs to complete such contracts;

the deferred tax assets expected to be realized in future periods; and

the period over which we estimate we will earn up front license payments.

Segment Information The Company follows established standards on the way that public companies report financial information about operating segments in annual financial statements and required reporting of selected information about operating segments in interim financial statements issued to the public. These standards provide for disclosures regarding products and services, geographic areas, and major customers. These standards also define operating segments as components of a company about which discrete financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance.

In applying these standards, the Company has defined its components as three reportable segments:

Refined coal (RC),

Emission control (EC), and

CO₂ Capture (CC).

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Reclassification Certain amounts in the 2011 and 2010 consolidated financial statements have been reclassified to conform to the 2012 presentation. Such reclassification had no effect on net income.

Newly Adopted Accounting Standard In September 2011, the Financial Accounting Standards Board issued revised authoritative guidance for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The guidance allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment for a reporting unit. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative two-step impairment test is unnecessary. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

2. **Property and Equipment**

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

	Life in Years	As of December 31, 2012 2011 (in thousands)	
Machinery and equipment	3-10	\$ 7,522	\$ 3,937
Leasehold improvements	2-5	1,106	624
Furniture and fixtures	3-7	781	281
RC assets	10	44,133	36,929
		53,542	41,771
Less accumulated depreciation and amortization		(8,931)	(4,651)
Total property and equipment, net		\$ 44,611	\$ 37,120

	Years Ended December 31, 2012 2011 2010 (in thousands)		
Depreciation and amortization	\$ 5,277	\$ 1,568	\$ 917

3. **Deferred Revenue and Deposits**

Deferred revenue consists of:

billings in excess of costs and earnings on uncompleted contracts;

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

Clean Coal Deferred Rent Revenue In June 2010, Clean Coal executed agreements to lease two RC facilities to GS RC Investments, LLC (GS RC), a related entity of the Goldman Sachs Group, Inc. (GS). These agreements provided for, among other things, a prepaid rent payment of \$9 million for both RC facilities that was received before June 30, 2010. In November and December 2011, Clean Coal entered into transactions to exchange the existing RC facilities (See Notes 7 and 11). There was no change to the prepaid rent payment or amortization period as a result of the exchanges. Clean Coal received an additional \$1.5 million from another financial party in July 2012.

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

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Deferred revenue, short-term	\$ 625	\$ 3,600
Deferred revenue, long-term	\$ 875	\$

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

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Rent revenue recognized	\$ 36,855	\$ 20,110	\$ 10,111
Amortization of prepaid rent included in amounts above	\$ 3,600	\$ 3,600	\$ 1,800

Clean Coal Deposits

During 2011, Clean Coal received deposits of \$14.9 million from GSFS Investments I Corp. (GSFS), an affiliate of GS towards RC facilities which may be leased upon attainment of certain milestones. An additional \$6.3 million was received in 2012 and the total of \$21.2 million is included in deposits in the consolidated balance sheets as of December 31, 2012 (see Note 11).

In October 2012, GSFS determined that it would not pursue leases on two particular RC facilities on which it had paid deposits totaling \$4.7 million and concurrently gave notice for the return of the related deposits. In December 2012, GSFS agreed to defer the return of these deposits until April 30, 2013. In March 2013, Clean Coal returned the \$4.7 million in deposits plus accrued interest to GSFS.

4. **Government and Industry Funded Contracts**

The Company has participated in several contracts awarded by the Department of Energy (the DOE). The Company typically invoices the DOE and industry cost-share partners monthly for labor and expenditures plus estimated overhead factors, less any cost share amounts. The contracts under which the Company has performed are subject to audit and future appropriation of funds by Congress. The Company has not experienced adverse adjustments as a result of government audits, however, the government audits for years ended 2005 through 2012 have not yet been finalized.

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Revenue recognized related to CC segment	\$ 3,020	\$ 3,096	\$ 2,073
Unearned contract amount	\$ 12,686	\$ 15,706	\$ 18,800
Expected revenue in 2013	\$ 9,671		

5. **Investments in Unconsolidated Entities**

Clean Coal Solutions Services As discussed in Note 1 above, the Company, together with NexGen, formed CCSS on January 20, 2010. The Company's investment in and advances to CCSS of \$1.9 million and \$590,000 as of December 31, 2012 and 2011, respectively, includes its share of CCSS income since its formation and is accounted for under the equity method of accounting. The following schedule shows CCSS unaudited consolidated summarized information as to assets, liabilities and revenues and ADA's share of net income attributed to CCSS (before consolidation). CCSS's consolidated financial statements include the financial results of the entities that lease RC facilities and its revenues include the sale of RC and its cost of sales includes raw coal purchases.

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Current assets	\$ 55,109	\$ 22,609
Property, equipment, and other long-term assets	768	3,682
Total Assets	\$ 55,877	\$ 26,291
Total Liabilities	\$ 31,904	\$ 15,988

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Net revenue	\$ 226,860	\$ 153,684	\$ 90,854
ADA's share of net income attributed to CCSS	\$ 760	\$ 189	\$ 236

ADA Carbon Solutions, LLC (Carbon Solutions) On October 1, 2008, ADA entered into a Joint Development Agreement (JDA), a Limited Liability Company Agreement (LLC Agreement), and other related agreements with Energy Capital Partners I, LP and its affiliated funds (ECP) and formed Carbon Solutions for the purposes of funding and constructing the activated carbon (AC) manufacturing facility in Red River Parish, Louisiana and similar projects. In November 2011, ADA relinquished all of its interest in Carbon Solutions. The Company had been accounting for the investment in Carbon Solutions under the equity method and recorded \$7.2 million and \$8 million as its share of Carbon Solutions' losses for 2011 and 2010, respectively.

Under the terms of the JDA, ADA was required to indemnify ECP and Carbon Solutions for certain damages and expenses they had incurred with respect to ADA's litigation with Norit which was settled in August 2011. On November 28, 2011, an Indemnity Settlement Agreement was entered into whereby ADA agreed to settle the indemnity obligations asserted against ADA and relinquish all of its interest in Carbon Solutions (See Note 10).

During the fourth quarter of 2011, we recorded the transactions resulting from the Indemnity Settlement Agreement for the satisfaction of the indemnity obligations and the relinquishment of ADA's interest which resulted in other income of \$20 million.

Pursuant to an Intellectual Property License Agreement (as amended in November 2011 pursuant to the Indemnity Settlement Agreement discussed above), the Company has licensed to Carbon Solutions all intellectual property relating primarily to the manufacture of AC (that was not transferred to Carbon Solutions under the JDA) or any application or use of AC competitive with the control of mercury emissions from coal-fired power plants (the Field) on an exclusive, perpetual, royalty-free basis and has provided certain rights of first refusal to Carbon Solutions with respect to intellectual property relating to the Field the Company may develop in the future.

6. Acquisition of Assets by BCSI

On August 31, 2012, pursuant to an Asset Purchase Agreement (Purchase Agreement) executed on July 26, 2012, BCSI acquired certain assets of two related privately held companies (Seller Companies) that fabricated and supplied DSI systems and other material handling equipment and provided testing and related DSI services for a purchase price of \$2 million and other amounts payable over the next five years as described below. This acquisition provided the Company with DSI market experience and expanded manufacturing capabilities for ACI systems.

In conjunction with the Purchase Agreement, the Seller Companies sole stockholder (Sellers Stockholder) and BCSI also executed a personal goodwill purchase agreement and goodwill promissory note whereby BCSI agreed to pay the Sellers Stockholder a total of \$2.8 million (subject to adjustment pursuant to the terms of the Purchase Agreement) as payment for the personal goodwill generated in connection with the Seller Companies.

In addition, the Sellers Stockholder and BCSI entered into a consulting and non-competition agreement and non-compete promissory note whereby BCSI paid the Sellers Stockholder \$200,000 and is paying him a monthly consulting fee of approximately \$21,000 per month for five years beginning August 31, 2012 in exchange for professional services provided by the Sellers Stockholder, subject to terms and conditions as specified in the Purchase Agreement (see Note 10).

The transaction was accounted for using the purchase method of accounting and the operating results related to the acquired assets have been consolidated into the Company s results of operations beginning August 31, 2012.

The purchase price was allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The following table summarizes the fair value of the Seller Companies assets acquired and liabilities assumed as of August 31, 2012:

	<i>(in thousands)</i>
Assets acquired:	
Inventory	\$ 109
Property and equipment	2,001
Intangible assets	2,748
Other assets	200
Total assets acquired	5,058
Liabilities assumed:	
Accrued liabilities	58
Total liabilities assumed	58
Net assets acquired	\$ 5,000
Purchase consideration:	
Deposit paid	\$ 200
Cash paid at closing	1,800
Notes payable	3,000
Total purchase consideration	\$ 5,000

7. Joint Venture Investment in Clean Coal

In November 2006, the Company sold a 50% interest in its joint venture in Clean Coal, which was formed in 2006 with NexGen to market RC technology. In May 2011, ADA and NexGen entered into a transaction in

which Clean Coal sold an effective 15% interest of the equity in Clean Coal to GSFS, an affiliate of GS which is included in temporary equity subject to possible redemption in the consolidated balance sheets (see Note 8). GSFS has certain preferences over ADA and NexGen as to liquidation and profit distribution. GSFS has no further capital call requirements and does not have a voting interest but does have approval rights over certain corporate transactions.

In September 2011, ADA, NexGen, and GSFS entered into a First Amendment to Second Amended and Restated Operating Agreement pursuant to which ADA and NexGen each transferred their 2.5% member interests in each of Clean Coal's subsidiaries back to Clean Coal. As a result of these transactions, ADA's interest in Clean Coal's net profits and losses is now 42.5%. This restructuring of ownership interests did not change the financial relationships of the parties and ADA still maintains a 50% governance interest in Clean Coal. In July 2012, ADA, NexGen and GSFS entered into the Second Amendment to the Operating Agreement (the "Operating Agreement") which, among other things, expanded Clean Coal's board of managers to allow for the appointment of an additional manager not directly representative of any of the members. Since its inception, ADA has been considered the primary economic beneficiary of this joint venture and has consolidated the accounts of Clean Coal.

Clean Coal's function is to supply technology, equipment and technical services to cyclone-fired and other boiler users, but Clean Coal's primary purpose is to put into operation facilities that produce RC that qualifies for tax credits available under Section 45 of the Internal Revenue Code ("Section 45 tax credits"). Clean Coal qualified two facilities in 2009 for such purposes and, as discussed in Note 3, leased those facilities to GS RC in 2010.

In December 2010, the Tax Relief and Job Creation Act of 2010 extended the placed in service deadline for the Section 45 tax credits to January 1, 2012. In consideration of the extension, Clean Coal built and qualified an additional 26 RC facilities in 2011 which met the extended placed in service date. In November and December 2011, the two leased RC facilities qualified in 2009 were exchanged with newly constructed, redesigned RC facilities. The new leases carried over most of the substantive terms and conditions of the initial leases. In December 2012, the parties amended the two leases to change the lease term to month-to-month and allow the lessee, upon five business days' written notice, to either terminate the leases or convert the lease terms to yearly. In March 2013 the parties amended and restated the lease agreements to change the structure and timing of the lease payments. The payments will be paid quarterly in advance and are subject to adjustments for inflation. Each lease has an initial non-cancellable term of two years and will automatically renew unless terminated at the option of the lessee thereof, for successive one-year terms through November 9, 2021 and December 10, 2021, as applicable. The parties also amended and restated the two Operating and Maintenance Agreements pursuant to which CCSS (subject to oversight by the lessee) operates and maintains the RC facilities to provide for the payment of a fixed fee under the agreements instead of payments based on the production of RC as had previously been in place.

Clean Coal leased a third RC facility in the first quarter of 2012 to another entity related to GS. Clean Coal leased a fourth RC facility to a third party investor during the third quarter of 2012. All agreements included terms and conditions substantially similar to those applicable to the first two leased RC facilities. On February 28, 2013, Clean Coal sold an RC facility to a new third party investor, bringing the total number of RC facilities currently leased or sold to five.

The Operating Agreement requires NexGen and ADA to each pay 50% of the costs of operating Clean Coal and specifies certain duties that both parties are obligated to perform. Pursuant to the Operating Agreement and Exclusive Right to Lease Agreement, GSFS is in the process of exercising its exclusive right (but not the obligation) to lease additional facilities that will produce up to approximately 12 million tons of RC per year on pre-established lease terms similar to those currently in effect for Clean Coal's first two leased facilities.

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

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Primary assets		
Cash and cash equivalents	\$ 994	\$ 8,804
Accounts receivable, net	3,275	3,177
Prepaid expenses and other assets	2,546	3,028
Property, plant and equipment including assets under lease and assets placed in service	40,096	36,751
Primary liabilities		
Accounts payable and accrued liabilities	\$ 5,728	\$ 10,526
Accounts payable to related parties	5,082	1,209
Line of credit	3,000	14,497
Deposits	21,200	14,900
Deferred revenue, current	625	3,600
Deferred revenue, long-term	875	
	Years Ended December 31,	
	2012	2011
	<i>(in thousands)</i>	
Net revenue	\$ 194,900	\$ 40,253
Net income	\$ 3,384	\$ 13,658
		\$ 6,873

Amounts paid and payable to NexGen

During 2012, 2011 and 2010, Clean Coal paid NexGen \$450,000, \$2.6 million and \$687,000, respectively, for management fees, rent and labor costs related to capital improvements for assets under lease and placed in service. At December 31, 2012 and 2011, the amount payable to NexGen was \$1.3 million and \$138,000, respectively, and is included in accounts payable to related parties in the consolidated balance sheets.

Amounts paid and payable to CCSS

During 2012, 2011 and 2010, Clean Coal paid CCSS \$4.7 million, \$3.4 million and \$64,000, respectively, for development and operating expenses. At December 31, 2012 and 2011, the amount payable to CCSS was \$3.5 million and \$1.2 million, respectively, and is included in accounts payable to related parties in the consolidated balance sheets.

8. **Temporary Equity Subject to Possible Redemption**

As described in Note 7, in May 2011, ADA and NexGen entered into a transaction in which Clean Coal sold an effective 15% interest of the equity in Clean Coal to GSFS. Approximately 15.8 units of non-voting Class B membership interests were issued to GSFS for \$60 million in cash. ADA and NexGen each received \$30 million as a result of the sale. The terms of the Operating Agreement permit GSFS to require redemption of the unreturned portion of its initial \$60 million investment in Clean Coal plus a return of 15% in 2021 and under certain limited circumstances. As a result, \$60 million is classified as temporary equity subject to possible redemption in the consolidated balance sheets.

9. **Stockholders Deficit**

On October 28, 2011, ADA closed on an underwritten public offering selling 2 million shares of common stock for \$15.25 per share generating \$28.4 million in net proceeds to ADA. In November 2011, the underwriters exercised their over-allotment option to purchase an additional 300,000 shares, generating an additional \$4.3 million in net proceeds to ADA.

As described in Note 7, in May 2011, Clean Coal entered into a transaction in which it sold an effective 15% interest of its equity to GSFS. Approximately 15.8 units of non-voting Class B membership interests were issued to GSFS for \$60 million in cash. ADA and NexGen each received \$30 million as a result of the sale. In conjunction with the closing of the purchase agreement, ADA, NexGen and GSFS entered into a Second Amended and Restated Operating Agreement and ADA and NexGen each exchanged 50 units of membership interests for approximately 42.1 voting Class A units in Clean Coal (each of which represents a 50% voting interest). Since the transaction did not result in a change in control of Clean Coal, the amount received from this transaction was recorded to common stock, net of the tax effect of approximately \$11 million.

For the years ended December 31, 2012 and 2011, the non-controlling interest portion of stockholders' deficit includes the non-controlling interest related to Clean Coal.

Since 2003, ADA has had several stock and option plans, including the 2005 Directors' Compensation Plan (the 2005 Plan), the Amended and Restated 2007 Equity Incentive Plan (the 2007 Plan), the Amended and Restated 2010 Non-Management Compensation and Incentive Plan, (the 2010 Plan) and the ADA-ES, Inc. Profit Sharing Retirement Plan, which is a plan qualified under Section 401(k) of the Internal Revenue Code (the 401(k) Plan) as described below. These plans allow ADA to issue stock or options for shares of common stock to employees, Board of Directors and non-employees.

Following is a table summarizing the option activity for the two years ended December 31, 2012 and 2011:

	Employee and Director Options	Weighted Average Exercise Price
Options outstanding, December 31, 2010	213,920	\$ 10.18
Options granted		
Options expired	(15,000)	15.20
Options exercised	(15,978)	8.18
Options outstanding, December 31, 2011	182,942	\$ 9.95
Options granted	5,000	19.54
Options expired		
Options exercised	(1,966)	10.73
Options outstanding, December 31, 2012	185,976	\$ 10.20

Following is a table of aggregate intrinsic value of options exercised and exercisable for the two years ended December 31, 2012 and 2011:

	Intrinsic Value	Average Market Price
Exercised, December 31, 2012	\$ 23,100	\$ 22.47
Exercised, December 31, 2011	\$ 140,155	\$ 15.38
	Intrinsic Value	Market Price
Exercisable, December 31, 2012	\$ 1,242,900	\$ 16.88
Exercisable, December 31, 2011	\$ 2,322,000	\$ 22.64

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

Range of Exercise Prices	Number of Options Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Lives
\$8.60 - \$10.20	142,583	\$ 8.66	2.9
\$13.80 - \$15.20	38,393	\$ 14.70	2.5
\$19.54	5,000	\$ 19.54	4.8
	185,976	\$ 10.20	2.9

During 2005, the Company adopted 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. 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). In October 2012, we issued 5,000 options to a new Board member under the 2005 Plan.

The 2007 Plan, which was adopted by ADA in 2007, was amended and restated as of August 31, 2010 to make non-material changes to assure Internal Revenue Code Section 409A compliance and to increase the non-management director annual grant limit to 15,000 shares of common stock from 10,000 shares. On July 19, 2012, the stockholders of ADA approved an amendment to the 2007 Plan to increase the number of shares presently issuable to 1.3 million and increase the number of shares authorized for issuance to 1.8 million. In addition, the stockholders also approved an increase in the number of shares with respect to which awards may be granted in any fiscal year from 30,000 to 50,000 and the annual grant limit for the non-management director annual grant was increased to 30,000 shares. The 2007 Plan authorizes the issuance to employees, directors and non-employees shares of common stock, either as restricted stock grants or to underlie options to purchase shares of ADA's common stock.

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

The 2010 Plan, which was adopted by ADA in 2010, was amended and restated as of July 19, 2012 to make non-material changes to assure Internal Revenue Code Section 409A compliance. The Plan permits grants of awards, which may be shares, rights to purchase restricted stock or bonuses of restricted stock or other rights or benefits under the Plan.

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Following is a table summarizing the common stock activity under various stock issuance plans for the two years ended December 31, 2012 and 2011:

	Stock Issuance Plans			Other Stock Plans
	2007 Plan	401(k) Plan	2010 Plan	
Shares available, December 31, 2010	93,943	183,794	300,000	12,065
Evergreen addition	44,593			
Restricted stock issued to new and anniversary employees	(22,849)			
Stock issued based on incentive and matching programs to employees	(35,825)	(27,769)		
Stock issued to executives, directors and non-employees	(50,280)			(7,000)
Forfeited shares	1,372			
Shares available, December 31, 2011	30,954	156,025	300,000	5,065
Additional shares authorized for issuance	300,000			
Evergreen addition	209,628			
Restricted stock issued to new and anniversary employees	(8,464)		(1,898)	
Stock issued based on incentive and matching programs to employees		(19,443)		
Stock issued to executives, directors and non-employees	(864)			
Forfeited shares	510			
Shares available, December 31, 2012	531,764	136,582	298,102	5,065

Expense recognized under the different plans for the three years ended:

	<i>(in thousands)</i>			
December 31, 2012	\$ 125	\$ 413	\$	\$ 3
December 31, 2011	\$ 747	\$ 349	\$	\$ 39
December 31, 2010	\$ 983	\$ 282	\$	\$ 41

Unrecognized expense under the different plans for the three years ended:

	<i>(in thousands)</i>			
December 31, 2012	\$ 646	\$	\$	\$
December 31, 2011	\$ 512	\$	\$	\$
December 31, 2010	\$ 341	\$	\$	\$

A summary of the status of the non-vested shares for the two years ended December 31, 2012 and 2011 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	92,936	\$ 5.46
Granted	22,849	14.95
Vested	(6,422)	10.38
Forfeited	(1,372)	7.48
Non-vested at December 31, 2011	107,991	\$ 6.98
Granted	10,362	23.47
Vested	(10,280)	(22.31)
Forfeited	(510)	(11.51)
Non-vested at December 31, 2012	107,563	\$ 8.26

10. **Commitments and Contingencies**

Line of Credit Clean Coal has a revolving line of credit with a bank for \$15 million that is secured by the equity interests and proceeds related to such equity interests of each subsidiary owned by Clean Coal. The line of credit expires on March 31, 2013 with payment due in four equal quarterly installments of principal of \$3.75 million (plus all accrued interest at such time) beginning June 30, 2012. Borrowings under the line of credit bear interest at the higher of the Prime Rate (as defined in the related credit agreement) plus one percent (1%) or 5% per annum. At December 31, 2012, the balance on the line of credit had been fully repaid and no additional borrowings are available under this agreement.

In May 2012, an amendment was made to the line of credit agreement to increase the amount available by \$3 million under an increased commitment note issued in conjunction with the line of credit. This amount is secured by a cash collateral account of \$3 million held by the bank issuing the line of credit with funds received equally from ADA and NexGen. Interest is payable monthly at 3% over the rate paid by the bank on the cash collateral account (3.35% at December 31, 2012). The agreement was amended in December 2012 to extend the term of the agreement until June 1, 2013.

In January 2013, the line of credit agreement was amended to provide an additional \$2 million with any borrowings under the amended agreement due on December 31, 2013. Borrowings under the additional line bear interest at the higher of the Prime Rate (as defined in the related credit agreement) plus one percent (1%) or 5% per annum. The increased commitment is secured by the equity interests and proceeds related to such equity interests of each subsidiary owned by Clean Coal.

At December 31, 2012, the outstanding balance on the increased commitment note was \$3 million and the effective interest rate was 3.35% per annum. The \$3 million balance was repaid in March 2013. Borrowings under the line of credit and increased commitment notes are subject to certain financial covenants applicable to Clean Coal.

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Notes Payable - As discussed in Note 6, in August 2012 ADA executed two promissory notes in conjunction with the acquisition of BCSI which consist of the following:

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Goodwill promissory note, payable in twenty quarterly installments of approximately \$154,000, including interest at 4% per year, due on September 30, 2017. The note is secured by a letter of credit in the amount of \$308,000, which expires August 31, 2017.	\$ 2,673	\$
Non-compete promissory note, payable in twenty quarterly installments of approximately \$11,000, including interest at 4% per year, due on September 30, 2017. The note is secured by a letter of credit in the amount of \$20,000, which expires August 31, 2017.		191
Total	2,864	
Less current portion	(559)	
Long-term portion	\$ 2,305	\$

The notes payable mature as follows:

Years Ending December 31,	
2013	\$ 559
2014	581
2015	605
2016	630
2017	489
	\$ 2,864

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

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Matching contributions in stock	\$ 413	\$ 349	\$ 282
Matching contributions in cash			
Total	\$ 413	\$ 349	\$ 282

Performance Guarantee on AC Injection Systems Under certain contracts to supply ACI systems, the Company may guarantee the performance of the associated equipment for a specified period to the owner of the power plant. The Company may also guarantee the achievement of a certain level of mercury removal based upon the injection of a specified quantity of a qualified AC at a specified rate given other plant operating conditions. In the event the equipment fails to perform as specified, the Company may have an obligation to correct or replace the equipment. In the event the level of mercury removal is not achieved, the Company may have a "make right" obligation within the contract limits. The Company assesses the risks inherent in each applicable contract and accrues an amount that is based on estimated costs that may be incurred over the performance period of the contract. Such costs are included in the Company's accrued warranty and other liabilities in the consolidated balance sheets. Any warranty costs paid out in the future will be charged against the accrual. The adequacy of warranty accrual balance is assessed at least quarterly based on the then current facts and circumstances and adjustments are made as needed. The changes in the carrying amount of the Company's performance guaranties are as follows:

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Beginning balance	\$ 547	\$ 612
Performance guaranties accrued	151	88
Expenses paid	(30)	(153)
Ending balance	\$ 668	\$ 547

In some cases, a letter of credit is obtained and held to cover the period of the warranty that can be used to satisfy the obligation.

Purchase Obligations As of December 31, 2012, the Company expects to pay purchase obligations totaling approximately \$6.2 million primarily for the purchase of components and services related to our Emission Control Segment.

Operating Lease Obligations ADA leases office and two warehouse facilities under non-cancellable operating lease agreements. Our facilities leases generally provide for periodic rent increases and renewal options. Clean Coal entered into a sub-lease agreement for office space in 2012 with an entity related to NexGen that expires in February 2021.

ADA's lease covering approximately 30,000 square feet of office space in Highlands Ranch, Colorado expires in February 2019 with the option to renew for two additional five-year periods. The lease includes abatement of base rent and operating expenses for the first six months and abatement of base rent for an additional thirteen months. The lease also included a one-time tenant improvement allowance in an amount up to approximately \$480,000.

ADA leases approximately 150,000 square feet of warehouse space in Highlands Ranch, Colorado which expires in October 2017 with the option to renew for two additional three-year periods.

ADA also leases approximately 15,000 square feet of warehouse space in Highlands Ranch, Colorado which expires in February 2019 and includes the option to renew for two additional five-year periods. The lease also included a one-time tenant improvement allowance of approximately \$150,000.

Annual minimum commitments under the leases are as follows:

Years Ending December 31,	Operating Lease Commitments (in thousands)
2013	\$ 477
2014	768
2015	789
2016	810
2017	795
Thereafter	931
Total	\$ 4,570

Rental expense incurred for the years ended December 31, is as follows:

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Rent expense	\$ 1,032	\$ 395	\$ 339

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

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

Arbitration Award Liabilities As previously reported in various filings, ADA had been engaged in litigation with Norit Americas, Inc. and Norit International N.V. f/k/a Norit N.V (Norit). The Norit lawsuit initially filed in Texas was moved to arbitration, and on April 8, 2011, the arbitration panel issued an interim award holding ADA liable for approximately \$37.9 million for a non-solicitation breach of contract claim and held ADA and certain other defendants liable for royalties of 10.5% for the first three years beginning in mid-2010 and 7% for the following five years based on adjusted sales of AC from the Red River plant. The Company recorded \$2.3 million and \$1.5 million in royalty expense for the years ended December 31, 2012 and 2011, respectively, related to this award.

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

The Company has accrued a current liability of \$3.3 million which is included in settlement awards and related accrued liabilities and a long-term liability of \$2.5 million which is included in settlement awards and indemnity liability in the consolidated balance sheets related to this agreement.

Indemnity Liability Settlement As previously reported in various filings, in November 2011, ADA entered into an Indemnity Settlement Agreement whereby ADA agreed to settle certain indemnity obligations asserted against ADA related to the Norit litigation. Under the terms of the Indemnity Settlement Agreement, ADA paid Carbon Solutions a \$2 million payment on November 28, 2011 and agreed to make 16 additional monthly payments of \$100,000 with the first one paid on November 28, 2011, and the remaining 15 payments commencing on December 1, 2011, relinquished all of its equity interest in Carbon Solutions to Carbon Solutions and amended the Intellectual Property License Agreement dated October 1, 2008 between ADA and Carbon Solutions.

The Company has accrued a current liability of \$200,000 which is included in settlement awards and related accrued liabilities in the consolidated balance sheets related to this agreement.

11. **Clean Coal Leasing Activities**

Clean Coal leased two RC Facilities in June 2010 to GS RC. The leases had initial terms that ran through December 31, 2012 and automatically renewed for annual terms through the end of 2019. Clean Coal received \$9 million at the inception of the leases, which was recorded as deferred revenue and was amortized into revenue under the straight-line method over the initial term of the leases through December 31, 2012. As discussed in Note 7 above, in November and December 2011, the two leased RC facilities were exchanged with newly constructed, redesigned RC facilities which resulted in termination of the original leases and issuance of new lease agreements. The new leases carried over many of the substantive terms and conditions of the initial leases, had initial terms that ran through December 31, 2012 and automatically renewed for annual terms through 2021, subject to a number of termination clauses.

In December 2012, the terms of these equipment leases were amended. The amendments provided that, as of December 31, 2012, the leases renew on a month-to-month basis and that, upon written notice, the leases could either be terminated or converted to yearly leases.

In March 2013 the parties amended and restated the lease agreements to change the lease payments from a combination of fixed and contingent rent payments to fixed payments payable quarterly in advance and subject to adjustment only for inflation for the remaining period of the leases. As amended and restated, the leases have initial terms of two years and will automatically renew for up to seven additional one year terms unless sooner terminated by the parties, which may be done by GS RC effective as of the end of any term by providing three months prior written notice. The parties also amended and restated the two Operating and Maintenance Agreements to provide for the payment of a fixed fee under the agreements instead of variable payments based on the production of RC.

Clean Coal leased a third RC facility in the first quarter of 2012 to another entity related to GS. The lease has a preliminary lease term that renews every fifteen days and will continue to renew until the initial lease term (as defined in the lease agreement) commences once certain conditions are satisfied. Clean Coal received \$6.3 million in prepaid rents at the inception of the lease that will be amortized into revenue once the initial lease term commences which is included in deposits in the consolidated balance sheets. The initial lease term runs through January 31, 2014, subject to certain termination clauses. The lessee has until November 30, 2013 to provide notice to renew or terminate the lease.

A fourth RC facility was leased to a third party investor in August 2012. Clean Coal received \$1.5 million as prepaid rent under the lease agreement which is included in deferred revenue in the consolidated balance sheet and is being amortized under the straight-line method through August 2013. The lease contains an initial three year term, with additional automatic renewal terms for six successive one year terms ending in 2021, subject to certain termination clauses.

In addition, subsequent to year end, in February 2013 Clean Coal finalized a contract for the sale of a fifth RC facility with a new third party investor. The structure of the sale agreement was similar to that of the initial leases and provides the buyer with the right to require Clean Coal to repurchase the facility for a nominal fee in certain situations. The terms of the sale included an upfront contribution of \$25 million, with \$20 million paid immediately, the remaining \$5 million to be paid when certain events are completed and a combination of fixed and variable payments going forward.

During the years ended December 31, 2012, 2011 and 2010, \$3.6 million, \$3.6 million and \$1.8 million, respectively, of deferred revenue was recognized. Contingent rental income received during 2012, 2011 and 2010 totaled \$14.9 million, \$8.6 million and \$6 million, respectively. Future minimum lease payments shown below do not include contingent rentals, which are based on the production of RC.

The following is a schedule, by year, of total fixed lease payments to be received, if all term extension options are exercised, through December 31, 2021.

Years Ending December 31,	Lease Payments Expected (in thousands)
2013	\$ 40,442
2014	43,346
2015	44,339
2016	45,202
2017	46,710
Thereafter	186,650
Total minimum lease payments	\$ 406,689

12. **Major Customers**

Sales to unaffiliated customers who represent 10% or more of the Company's sales were as follows:

Customer	As of December 31,	
	2012	2011
A	16%	38%

The Company's receivables were as follows:

Receivables as of:	Number of Customers That Make up Percentage of Balance	Percentage of Balance
	December 31, 2012	3
December 31, 2011	2	63%

13. **Income Taxes**

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

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recent losses have been incurred, the accounting standards require convincing evidence that there will be sufficient future taxable income to realize deferred tax assets.

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The Company has provided a full valuation allowance against the deferred tax assets of \$39.5 million and \$18.6 million as of December 31, 2012 and 2011 respectively, to reflect the estimated amount of deferred tax assets that may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers both positive and negative evidence and tax planning strategies in making this assessment. See Note 16 for additional discussion.

The tax benefit included in the consolidated statement of operations for fiscal year ended December 31, 2011 was recorded as a result of the sale of the equity interest in Clean Coal to GSFS in May 2011. Since the transaction did not result in a change in control of Clean Coal, the \$10.4 million tax effect of the amount received from this transaction was recorded to stockholders' deficit.

The Company's income tax benefit (expense) from continuing operations consists of the following:

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Current	\$	\$	\$
Deferred		10,400	(7,093)
Income tax benefit (expense)	\$	\$ 10,400	\$ (7,093)

The following lists the Company's deferred tax assets and liabilities:

	As of December 31,	
	2012	2011
	<i>(in thousands)</i>	
Deferred tax assets		
Deferred warranty, settlements and other	\$ 2,136	\$ 3,439
Allowance for doubtful accounts	2	4
Property and equipment		48
Deferred revenues, compensation and other	1,542	1,174
Net operating loss carryforward	22,300	13,944
Tax credits	18,695	2,210
Total tax assets	44,675	20,819
Deferred tax liabilities		
Prepaid expenses	190	129
Intangible assets and other	67	21
Property and equipment	696	
Net equity in net income/loss of joint venture and unconsolidated entities	4,199	2,044
Total tax liabilities	5,152	2,194
Deferred tax assets, net of liabilities	39,523	18,625
Valuation allowance	(39,523)	(18,625)
Net deferred tax assets	\$	\$

A reconciliation of expected federal income taxes on income from operations at statutory rates with the benefit (expense) for income taxes follows:

	Years Ended December 31,		
	2012	2011	2010
	<i>(percent)</i>		
Expected income tax rate	34	34	34
Valuation allowance	(191)	(12)	(77)
Non-controlling interest	6	11	6
Permanent differences	(3)	<1	<1
Tax credits	150	6	1
State income taxes	2	2	2
Other	2		(1)
Actual effective income tax rate		41	(35)

We believe that our income tax filing positions reflected in the various tax returns are more-likely-than not to be sustained on audit and thus there are no anticipated adjustments that would result in a material change to our consolidated financial position, results of operations and cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

The primary jurisdictions in which the Company files income tax returns are the U.S. federal government and State of Colorado. The Company is no longer subject to U.S. federal examinations by tax authorities for years before 2009 and Colorado state examinations for years before 2008.

The Company has a federal net operating loss carryforward of \$54.8 million that will expire in the years ranging from 2029 to 2032 and a state net operating loss carryforward of \$45.2 million that will expire in years ranging from 2016 to 2032. The Company has federal tax credit carryforwards of \$18.7 million that will expire in the years ranging from 2025 to 2032.

14. Related Party Transactions

In June 2010, the Company entered into a Development and License Agreement and executed a Securities Subscription and Investment Agreement with Arch Coal, Inc. (Arch) in which the Company licensed, on an exclusive non-transferable basis, the use of certain of its technology to enhance coal by a proprietary treatment process and received a non-refundable license fee of \$2 million in cash which was recognized as revenue in 2011 and 2010. As part of the agreement, Arch is required to purchase from the Company the chemicals required to enhance the coal.

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Revenues recognized from activities with Arch	\$	\$ 1,402	\$ 784

Robert E. Shanklin is the Vice President of Coal Technology of Arch and is a member of the Company's Board of Directors (the Board). The appointment of Mr. Shanklin to the Board was made pursuant to a 2003 Subscription and Investment Agreement with Arch whereby the Company's management agreed to make available one seat on our Board for an Arch designee and to vote all shares and proxies they are entitled to vote in favor of such designee for so long as Arch continues to hold at least 100,000 shares of our common stock. In addition, as required by our related-party transaction policy, the above noted agreements were approved by the Company's audit committee before being recommended to the Board for approval and were then approved by the disinterested members of the Board.

15. **Business Segment Information**

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

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Revenue			
RC			
Rental income	\$ 36,855	\$ 20,110	\$ 10,111
Coal sales	157,898	19,952	
Other revenues	147	191	272
	194,900	40,253	10,383
EC			
Systems and equipment	9,578	4,141	5,546
Consulting and development	4,227	4,900	3,625
Chemicals	798	926	654
	14,603	9,967	9,825
CC	3,020	3,096	2,073
Total	\$ 212,523	\$ 53,316	\$ 22,281
Segment profit			
RC	\$ 14,214	\$ 17,984	\$ 7,842
EC	277	1,350	2,114
CC	210	241	895
Total	\$ 14,701	\$ 19,575	\$ 10,851

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

	Years Ended December 31,		
	2012	2011	2010
	<i>(in thousands)</i>		
Total segment profit	\$ 14,701	\$ 19,575	\$ 10,851
Non-allocated general and administrative expenses	(17,852)	(14,980)	(30,884)
Depreciation and amortization	(5,277)	(1,568)	(917)
Interest and other income	305	2,218	2,510
Interest expense	(1,461)	(1,584)	(16)
Settlement of litigation and arbitration award, net	(2,301)	(21,932)	6,072
Net equity in net income (loss) of unconsolidated entities	760	(6,967)	(8,037)
Deferred income tax benefit (expense)		10,400	(7,093)
Net (income) loss attributable non-controlling interest	(1,946)	(7,981)	(3,613)
Net loss attributable to ADA-ES, Inc.	\$ (13,071)	\$ (22,819)	\$ (31,127)

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

16. **Restatements**

Subsequent to filing the Company's Annual Reports on Form 10-K for the fiscal years ended December 31, 2011 and 2010, the Company determined that a full valuation allowance on its net deferred tax assets should have been maintained as of December 31, 2011 and 2010. Management determined that it was necessary to maintain the valuation allowance against its deferred tax assets after considering information that should have been used to measure the positive and negative evidence regarding the ultimate realization of the net deferred tax assets in the original assessment.

Realization of the net deferred tax assets is dependent upon the Company's ability to generate future taxable income. In its reassessment, management concluded that objective and verifiable negative evidence represented by historic losses outweighed more subjective positive evidence of anticipated future income. As a result, the Company determined it necessary to maintain a full valuation allowance against its net deferred tax assets as of December 31, 2011 and 2010.

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

As a result, the Company restated its financial statements and filed amended Annual Reports on Form 10-K for the fiscal years ended December 31, 2011 and 2010 on October 19, 2012. Additional information related to the restatements is included in Note 16 and Note 15 of the consolidated financial statements included in the Annual Reports on Form 10-K/A for the fiscal years ended December 31, 2011 and 2010, respectively.