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ADA-ES, Inc. Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). The first question comes from Sanjay Shrestha with Lazard Capital Management.

Graham Mattison - Lazard Capital Management

Hi. Good morning, guys. It's Graham Mattison. How are you?

Mike Durham

Good, Graham.

Graham Mattison - Lazard Capital Management

Just a quick question, I apologize, I couldn't hear at the beginning of the call. You were mentioning something about the margin trends in the mercury control division. It was down from the prior quarters. Is this a reflection of increasing competition or is this more of a normalized level now that the markets move more into commercial sales and away from demonstration units?

Mark McKinnies

It's really a matter of two factors. One is the increased amount of those revenues that are coming from ACI system sales. Those system sales very lower margins than the mix of revenues that have been in that segment or been primarily dominated by the DOE and industry of contract revenues, which had higher revenues. So, as the ACI systems continue to grow as representing a larger part of that segment's profits, we'll see that margins continue to decrease there too. Our expectation on those ACI system sales was to have gross margins in 20% to 25% range and we believe those are competitive amounts.

Graham Mattison - Lazard Capital Management

All right, great. Thank you. Now that the camera has been thrown out, what are you seeing or hearing on the policy front, your expectations? Do you think you will see more movement on the state level or will it be everyone waiting for a federal ruling before moving on the state level?

Mike Durham

It really depends on what happens here. The Department of Justice has 45 days, which I think ends in the middle of March in which to more or less provide EPA with guidance on what the rule means. And so, then it's a matter of what EPA decides to do and whether they do something in the late hours of this administration or leave it to the next administration to do will determine whether the states move forward.

So, in some cases there are state actions that will kick in automatically. For example, in Wisconsin there was a rule that was more aggressive, but they had a provision that if the federal rule was weaker they would fall back to the weaker rule. And so, now they could be back to a stricter rule. But I think what we're seeing right now is just beyond the 12 states that are there, the rules for existing power plants, everybody else just wants to see what comes out of EPA in the next month or so.

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