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ADA-ES INC
Form PRE 14A
April 06, 2007

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange
Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

- [X] Preliminary Proxy Statement
- [] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Materials Pursuant to Sec. 240.14a-12

ADA-ES, INC.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Persons(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [x] No Fee Required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

4) Date Filed:

2

ADA-ES, INC.
8100 SouthPark Way, Unit B
Littleton, Colorado 80120
(303) 734-1727

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 19, 2007

To Our Shareholders:

An Annual Meeting (the "Meeting") of Shareholders of ADA-ES, Inc. ("ADA-ES" or the "Company"), a Colorado corporation, will be held at 9:00 a.m. (local time) on June 19, 2007 at the Pinehurst Country Club, located at 6255 West Quincy Street in Denver, Colorado, or at any postponement or adjournment thereof, for the following purposes:

1. To elect nine (9) directors of the Company;
2. To consider and vote upon a proposal to approve the 2007 Equity Incentive Plan, including approval of shares of common stock reserved for issuance under the Plan;
3. To approve the Stock Issuance Plan for the issuance of shares of the Company's common stock in excess of 20% of the amount of our outstanding shares of common stock and not more than 3 million shares, including shares of common stock underlying options and warrants, in connection with raising capital for implementing our business plan for being the market leader in mercury control technology by manufacturing injection equipment and activated carbon for our power plant customers. This includes possible acquisition of equipment fabricator(s) and development of a "Greenfield" activated carbon manufacturing facility or other projects or ventures intended to provide the Company and its customers with a long-term supply of activated carbon and working capital requirements; and
4. To consider and vote upon such other matters as may properly come before the Meeting or any postponement or adjournment thereof.

Shareholders of record at the close of business on April 30, 2007 are entitled to notice of and to vote at the Meeting.

The Board of Directors of the Company extends a cordial invitation to all shareholders to attend the Meeting in person. Whether or not you plan to attend the Meeting, please fill in, date, sign and mail the enclosed proxy in the return envelope as promptly as possible. Your proxy may be revoked at any time prior to the Meeting. The prompt return of your completed proxy will assist the Company in obtaining a quorum of shareholders for the Meeting, but will not affect your ability to change your vote by subsequent proxy or by attending the Meeting and voting in person. If you are unable to attend, your written proxy will assure that your vote is counted.

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Please call on our toll-free number (888-822-8617) if you require directions or have other questions concerning the Meeting.

By Order of the Board of Directors

Mark H. McKinnies
Secretary

May 3, 2007

1

PROXY STATEMENT

ADA-ES, INC.
8100 SouthPark Way, Unit B
Littleton, CO 80120
Telephone: (303) 734-1727

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JUNE 19, 2007

This Proxy Statement is furnished to the shareholders of ADA-ES, Inc. (the "Company"), a Colorado corporation, in connection with the solicitation of proxies by the Company's ("our") Board of Directors (the "Board"), to be voted at our ANNUAL MEETING OF SHAREHOLDERS (the "Meeting") to be held on Tuesday, June 19, 2007, at the Pinehurst Country Club at 6255 West Quincy Street, Denver, Colorado and any postponements or adjournments thereof. This Proxy Statement and accompanying form of proxy is first being mailed or given to our shareholders on or about May 7, 2007. The shares represented by all proxies that are properly executed and submitted will be voted at the Meeting in accordance with the instructions indicated thereon, and if no instructions are given, then in the discretion of the proxy holder. Throughout this Proxy Statement, the terms "we," "us" "our" and "our company" refer to ADA-ES, Inc., and unless the context indicates otherwise, our subsidiaries on a consolidated basis.

VOTING RIGHTS AND VOTE REQUIRED

Our Board has fixed the close of business on April 30, 2007 as the record date for determination of shareholders entitled to notice of and to vote at the Meeting. At such date there were [_____] shares of our common stock issued and outstanding (hereinafter referred to as the "Common Stock"), each of which entitles the holder thereof to one vote on all matters that may come before the meeting. We do not have any class of voting securities other than Common Stock. An abstention or withholding authority to vote will be counted as present for determining whether the quorum requirement is satisfied. If a quorum exists, actions or matters other than the election of the Board are approved if the votes cast in favor of the action exceed the votes cast opposing the action unless a greater number is required by the Colorado Business Corporation Act or our Articles of Incorporation. Abstentions will not affect the election of directors, but will have the same effect as a vote against the proposals to approve our 2007 Stock Incentive Plan and the Stock Issuance Plan. A broker non-vote occurs when a nominee holding shares for a beneficial holder does not have discretionary voting power and does not receive voting instructions from the beneficial owner. Such nominees will not have discretionary voting power with respect to approving our 2007 Stock Incentive Plan or the Stock Issuance Plan. Broker non-votes on a particular proposal will not be treated as shares present and entitled to vote on the proposal and accordingly will have no effect

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on the vote.

A minimum of one-third of the shares of Common Stock issued and outstanding must be represented at the Meeting, in person or by proxy, in order to constitute a quorum. Cumulative voting is not allowed for any purpose. Assuming a quorum is present, the nine nominees receiving the highest number of votes cast will be elected as Directors.

Unless instructions to the contrary are marked, or if no instructions are specified, shares represented by proxies will be voted:

- o FOR the persons nominated by the Board for directors, being Robert N. Caruso, Michael D. Durham, John W. Eaves, Derek C. Johnson, Ronald B. Johnson, Mark H. McKinnies, Rollie J. Peterson, Jeffrey C. Smith and Richard Swanson.
- o FOR the approval of the 2007 Equity Incentive Plan.
- o FOR the approval of the Stock Issuance Plan for authorization to issue shares of the Company's common stock in excess of 20% of the amount of our outstanding shares of common stock and not more than 3 million shares, including shares of common stock underlying options and warrants, in connection with raising capital for implementing our business plan for being the market leader in mercury control technology by manufacturing injection equipment and activated carbon for our power plant customers. This includes possible acquisition of equipment fabricator(s) and development of a "Greenfield" activated carbon manufacturing facility or other projects or ventures intended to provide the Company and its customers with a long-term supply of activated carbon and working capital requirements.

We do not know of any other matter or motion to be presented at the Meeting. If any other matter or motion should be presented at the Meeting upon which a vote must be properly taken, the persons named in the accompanying form of proxy intend to vote such proxy in accordance with that person's judgment, including any matter or motion dealing with the conduct of the Meeting.

3

Any shareholder who completes a proxy may revoke it at any time before it is exercised by delivering written notice of such revocation to the Company (c/o Mark H. McKinnies, Secretary), 8100 SouthPark Way, Unit B, Littleton, Colorado, 80120, by submitting a new proxy executed at a later date, or by attending the Meeting and voting in person.

The Company will pay solicitation expenses. In addition to solicitation by mail, our directors, officers and other employees may, without additional compensation, solicit proxies by mail, in person or by telecommunication.

ELECTION OF DIRECTORS

At the Meeting, the shareholders will elect nine directors of the Company. Each director will hold office until the next Annual Meeting of Shareholders and thereafter until a successor is elected and has qualified. Cumulative voting is not permitted in the election of directors. IN THE ABSENCE OF INSTRUCTIONS TO THE CONTRARY, THE PERSON NAMED IN THE ACCOMPANYING PROXY WILL VOTE IN FAVOR OF THE ELECTION OF THE FOLLOWING PERSONS NAMED AS OUR NOMINEES FOR DIRECTORS: ROBERT N. CARUSO, MICHAEL D. DURHAM, JOHN W. EAVES, DEREK C. JOHNSON, RONALD B. JOHNSON, MARK H. MCKINNIES, ROLLIE J. PETERSON, JEFFREY C. SMITH and RICHARD J. SWANSON.

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All of the nominees are currently members of the Board. Each of the nominees has consented to be named herein and to serve if elected. It is not anticipated that any nominee will become unable or unwilling to accept nomination or election, but if such should occur, the persons named in the proxy intend to vote for the election in his stead of such other person as the Board may recommend. It is the policy and practice of the Company that all directors attend the Meeting. All of our directors attended our 2006 Annual Meeting of Shareholders.

The following table sets forth certain information as to each current nominee and director of the Company:

| Name ---- | Age --- | Position and Offices ----- | Director ----- Since ----- |
|--------------------|------------|--|-------------------------------------|
| Robert N. Caruso | 55 | Director, Member of the Compensation and Nominating and Governance Committees | 2006 |
| Michael D. Durham | 57 | Director, President | 2003 |
| John W. Eaves | 49 | Director, Member of the Compensation and Nominating and Governance Committees | 2004 |
| Derek C. Johnson | 46 | Director, Member of the Audit and Governance Committees | 2006 |
| Ronald B. Johnson | 75 | Director, Chairman of the Compensation Committee, Member of the Audit Committee | 2003 |
| Mark H. McKinnies | 55 | Director, Senior Vice President, Chief Financial Officer and Secretary | 2003 |
| Rollie J. Peterson | 59 | Director, Chairman of the Nominating and Governance Committee, Member of the Audit Committee | 2003 |
| Jeffrey C. Smith | 55 | Chairman of the Board of Directors, Member of Audit and Compensation Committees | 2003 |
| Richard J. Swanson | 71 | Director, Chairman of the Audit Committee, Member of the Compensation Committee | 2006 |

The initial appointment of John Eaves to our Board was made pursuant to a Subscription and Investment Agreement ("Investment Agreement") with Arch Coal, Inc. ("Arch Coal") whereby our management agreed to make available one seat on the Board for an Arch Coal designee so long as they continue to hold at least 100,000 shares of our common stock. There are no other arrangements or understandings between any directors or executive officers and any other person or persons pursuant to which they were selected as directors or executive officers.

Mr. Eaves is the COO, President and a director of Arch Coal, a public company located in St. Louis MO (NYSE:ACI). Mr. Swanson has served as a director and Audit Committee Chairman of AHPC Holdings, Inc., a public company located in Glendale Heights, Illinois and parent company of American Health Products Corporation, since 1998 and a director and Audit Committee Chairman of Ascent Solar Technologies, Inc., a public company located in Lakewood, Colorado since January 2007. None of the other individuals named above are directors of any other public companies.

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Mr. Caruso currently serves as a managing partner of B/3 Management Resources, LLC, a management consulting and technical services firm, since 1988. Mr. Caruso has also served as Vice President of Ingenium Technology, since 2003. From 1999 to 2001, Mr. Caruso was Vice President and General Manager of Applied Science & Technology, a public company at the time, providing reactive gas processing systems and specialty power sources to the semiconductor and medical equipment markets. Mr. Caruso has a B.S. in Engineering Mechanics and B.A. in General Arts and Sciences from Pennsylvania State University and an MBA from Wayne State University.

Dr. Durham was a co-founder in 1985 of ADA Technologies, Inc., an Englewood, Colorado private company which contracts to the federal government and others for development of emission technologies. ADA Environmental Solutions LLC, our wholly owned subsidiary, was originally spun-out of ADA Technologies in 1996. Dr. Durham has been President, CEO and a director of the Company since 1997 and President of ADA Environmental Solutions since 1996. Dr. Durham has a B.S. in Aerospace Engineering from Pennsylvania State University, an M.S. and Ph.D. in Environmental Engineering from the University of Florida and an Executive MBA from the University of Denver.

Mr. Eaves currently serves as President, Chief Operating Officer and a director of Arch Coal. Mr. Eaves previously held the position of Vice President of Marketing for Arch Coal since that company's formation on July 1, 1997. Prior to that time, he served as President of the marketing subsidiary of Arch Mineral Corporation, one of Arch Coal's predecessor companies. He also held various positions in sales and administration with Diamond Shamrock Company and Natomas Coal Company. Mr. Eaves holds a B.S. degree from the University of Kentucky and attended an Executive Management Program at the Wharton School of Business and an Advanced Management Program at Harvard Business School.

Mr. Derek Johnson has served as President of Fusion Specialties, a specialty supplier to the retail industry, since November 2005. From 1984 to 2005, Mr. Johnson was employed in various positions, most recently as President and Chief Operating Officer, by CoorsTek, a manufacturer of technical products, supplying critical components and assemblies for mining automotive, semiconductor, aerospace, electronic, power generation, telecommunication and other high-technology applications on a global basis. He has a Higher National Certificate from Kirkcaldy College in Scotland and an Executive MBA from the University of Denver.

Mr. Ronald Johnson has been involved in all phases of the chemical industry, including roles in production, compounding and distribution both domestically and internationally, for 47 years. He has held executive, management, marketing, development and strategic planning positions with Dupont, Industrial and Biochemical Department; Gamlen Chemical, an international compounding company; and Univar, a North American chemical distributor. He also served as a Board member of Earth Sciences from 2000 to 2003 and of Charter National Bank and Trust from 1988 to 2000. Mr. Johnson also serves as President and owner of Twin-Kem International, Inc., a distributor of agricultural industrial chemicals, since 1984, and as President of ExecuVest, Inc., an oil & gas exploration company, since 1987.

Mr. McKinnies has served as our Chief Financial Officer and Secretary since 2003 and was appointed as Senior Vice President in September, 2005. Mr. McKinnies was employed by Earth Sciences from 1978 through 2000. A CPA, Mr. McKinnies worked for Peat, Marwick, Mitchell & Co. before commencing employment at Earth Sciences in 1978. Mr. McKinnies holds a bachelors degree in Accounting from the University of Denver.

Mr. Peterson, a self-employed businessman, is President, Treasurer and co-owner of Cobblestone Development Inc., a commercial land development company in

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Minnesota that he helped found in 1987. Since 2000, he has also served as President of Keystone Investments Inc., a company engaged in managing investments for personal estates.

Mr. Smith was appointed a director of the Company in August 2003 and has been a self-employed lawyer in the Law Office of Jeffrey C. Smith since April 2003. From 1981 until April 2003, Mr. Smith served as Managing Director of ESI International, providing regulatory consulting services. Mr. Smith is a past Executive Director of the Institute of Clean Air Companies, where he served for 17 years. Mr. Smith holds a bachelors degree from Duke University and a J.D. from the University of Michigan.

Mr. Swanson was appointed a director of the Company in July 2006 and serves as the Chairman of the Audit Committee. Mr. Swanson has served as a consultant to Vistage International, Inc., which focuses on strategic coaching and corporate troubleshooting for CEOs of public and private companies. Since 1980, he has also been the President of Investment Partners, Inc., which is engaged in the restructuring and recapitalization of troubled companies, and Real Estate Associates, Inc., which focuses on real estate acquisition and development. He has a B.A. in History from the University of Colorado and an MBA from Harvard Business School.

No family relationship exists between any directors or executive officers.

5

PROPOSAL NO. 2

APPROVAL OF 2007 EQUITY INCENTIVE PLAN

Our shareholders are being asked to vote on the proposed 2007 Equity Incentive Plan (the "Plan") in order to provide us with a means to attract and maintain the best possible personnel, to provide additional incentives to employees, directors and consultants, and to promote the success of the Company's business. We currently have nine directors and approximately 40 employees and 6 consultants who will be eligible to participate in the Plan. We are proposing to replace our existing 2003 Stock Option Plan with the Plan, which will provide us with needed flexibility in tailoring equity compensation awards that we expect will assist us in securing and retaining key personnel needed for our business.

General Description

The Plan permits grants of "Awards," which include the grant of (1) options to purchase Common Stock ("Options") and (2) "restricted" shares of Common Stock ("Restricted Stock"). Under the Plan, incentive stock options ("ISO's"), within the meaning of Section 422 of the Internal Revenue Code (the "Code"), can be granted only to our employees or employees of any parent or subsidiary corporation. Non-qualified stock options ("NSO's") and Restricted Stock may be granted to employees, directors and consultants. An Award may include any combination of Options or Restricted Stock.

The Plan provides for the grant of Options with exercise terms that will include a fixed exercise price (i.e., the price an optionee must pay for the stock issued on exercise of the Option) which will be related to the market price of our Common Stock on the date of grant. The exercise price will generally be no less than the fair market value of the Common Stock at that time, except in the case of owners of 10% or more of our Common Stock at the time of a grant, in which case the exercise price will be no less than 110% of the per share fair

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market value of the Common Stock. In addition, Awards of Options and Restricted Stock will be subject to a vesting schedule or, in the case of Restricted Stock, a "reverse" vesting schedule, which will be based on the passage of time, the occurrence of one or more events or the satisfaction of performance criteria or other conditions. The market value of our shares of common stock as of April 30, 2007 was \$ _____.

Under the Plan, we may grant Awards to such employees, directors or consultants who are residing in foreign jurisdictions as the administrator of the Plan may determine from time to time. The Plan is not a qualifying deferred compensation plan under Section 401(a) of the Code and is not subject to the provision of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Our Plan was approved by our Board of Directors on April 6, 2007; however, the Plan is subject to approval by our shareholders, which is being sought under this Proposal at this meeting .

Shares Reserved

The number of shares of Common Stock authorized for issuance under the Plan will be limited to not more than 1 million shares, which includes shares of Common Stock that may be issued upon exercise of Options or as Restricted Stock issued under the Plan. Initially, the number of shares reserved for issuance of Awards under the Plan will be 600,000, with an "evergreen" provision pursuant to which additional shares will automatically be added to the Plan on the first day of each fiscal year, beginning with the fiscal year commencing January 1, 2008, in an amount equal to ten percent (10%) of the increase in the total number of shares of Common Stock outstanding on the last day of the immediately preceding fiscal year over the number of outstanding shares of Common Stock on such date one year prior, or such lesser number of shares as is later ratified by the Board at their first meeting or action in such new fiscal year. In no event may any annual increase exceed 300,000 shares and in no event can the total number of shares authorized for issuance under the Plan exceed 1,000,000.

Administration

The Plan will be administered by a "Plan Administrator," which may be the Board of Directors or a committee designated by the Board in such a manner as to satisfy applicable laws. It is anticipated that the Compensation Committee of the Board will administer the Plan. With respect to grants to directors or employees who are also officers or directors of the Company, the administration shall permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. With respect to awards subject to Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), the committee will be comprised solely of two or more "outside directors" as defined under Section 162(m) and applicable tax regulations. For grants of awards to individuals not subject to Rule 16b-3 and Section 162(m), our Board may authorize one or more officers to grant such awards.

6

Limitations on Award Grants

The maximum number of shares of Common Stock that may be granted as to an Award to any grantee in any fiscal year is limited to 30,000 shares, except for Non-Management Directors, who may only be granted annual Awards covering up to 10,000 shares. However, in connection with his or her initial commencement of

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services with us, a participant in the Plan who is an employee may be granted up to an additional 30,000 shares, which do not count against the limit set forth in the previous statement. These limitations ensure that any Options granted under the Plan qualify as "performance-based compensation" under Section 162(m) of the Code. Under Code Section 162(m) no deduction is allowed in any taxable year for compensation in excess of \$1 million paid to our chief executive officer and each of our four most highly paid other executive officers who are serving in such capacities as of the last day of such taxable year. An exception to this rule applies to compensation that is paid pursuant to a stock incentive plan approved by our shareholders and that specifies, among other things, the maximum number of shares with respect to which options may be granted to eligible employees under such plan during a specified period. Compensation paid pursuant to options granted under such a plan and with an exercise price equal to the fair market value of our Common Stock on the date of grant is deemed to be inherently performance-based, since such awards provide value to employees only if the stock price appreciates. If the Plan did not contain the Code Section 162(m) share limits with respect to which options may be granted to eligible employees during a specified period, any compensation expense associated with the Options granted under the Plan in excess of \$1 million for any of our five highest paid officers would not be deductible to us under the Code.

Amendment and Termination

Our Board of Directors may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system and the rules of any foreign jurisdiction applicable to awards granted to residents therein, we will obtain shareholder approval of any amendment to the Plan in such a manner and to such a degree as required.

If approved by the shareholders, the Plan will terminate as of June 18, 2017, ten years from the date the Plan was approved by our Board of Directors, unless previously terminated by the Board.

Termination of 2003 Stock Option Plan Upon Shareholder Approval of the Plan

If the Plan is approved by our shareholders, we will terminate our 2003 Stock Option Plan, under which there remain 140,706 shares of Common Stock reserved for the grant of new options under the 2003 Stock Option Plan.

Other Terms of Options

Options granted under the Plan and the rights and privileges evidenced by any Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than (i) by will or by the applicable laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code, or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder or (iii) as otherwise determined by the Plan Administrator and set forth in the applicable Option agreement. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option under the Plan or of any right or privilege conferred thereby, contrary to the Code or to the provisions of the Plan, or the sale or levy or any attachment or similar process upon the rights and privileges conferred thereby shall be null and void. The designation by an Optionee of a beneficiary does not, in and of itself, constitute an impermissible transfer under the Plan.

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If the Optionee's relationship with the Company or any related corporation ceases for any reason other than termination for cause, death or total disability, and unless by its terms the Option sooner terminates or expires, then the Optionee may exercise, for a three-month period, that portion of the Optionee's Option which is exercisable at the time of such cessation, but the Optionee's Option shall terminate at the end of the three-month period following such cessation as to all shares for which it has not theretofore been exercised, unless, in the case of an NSO, such provision is waived in the agreement evidencing the Option or by resolution adopted by the Plan Administrator within 90 days of such cessation. If, in the case of an ISO, an Optionee's relationship with the Company or related corporation changes (i.e., from employee to non-employee, such as a consultant), such change shall constitute a termination of an Optionee's employment with the Company or related corporation and the Optionee's ISO will become an NSO.

7

Options under the Plan must be issued within 10 years from the effective date of the Plan which is expected to be on June 19, 2007 if our shareholders approve the adoption of the Plan. Options granted under the Plan cannot be exercised more than 10 years from the date of grant. Options issued to a 10% Shareholder are limited to five-year terms.

Payment of the option exercise price shall generally be made in full at the time the notice of exercise of the Option is delivered to the Company and shall be in cash, bank certified or cashier's check or personal check (unless at the time of exercise the Plan Administrator in a particular case determines not to accept a personal check). The Plan Administrator can determine at the time the Option is granted for ISO's, or at any time before exercise for NSO's, that additional forms of payment will be permitted. To the extent permitted by the Plan Administrator and applicable laws and regulations (including, but not limited to, federal tax and securities laws and regulations and state corporate law), an Option may be exercised by delivery of shares of stock of the Company held by an Optionee having a fair market value equal to the exercise price, such fair market value to be determined in good faith by the Plan Administrator; delivery of a properly executed exercise notice, together with irrevocable instructions to a broker, all in accordance with the regulations of the Federal Reserve Board, to promptly deliver to the Company the amount of sale or loan proceeds necessary to pay the exercise price and any federal, state or local withholding tax obligations that may arise in connection with the exercise; or delivery of a properly executed exercise notice together with instructions to the Company to withhold from the shares that would otherwise be issued upon exercise that number of shares having a fair market value equal to the option exercise price.

Any unexercised Options that expire or that terminate upon an employee's ceasing to be employed by the Company, or shares of Restricted Stock that are repurchased by the Company become available again for issuance under the Plan.

The vesting of outstanding Options under the Plan will be subject to acceleration upon certain changes in the ownership or control of the Company. The acceleration of the vesting of Options in the event of such changes in control may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

If the Grantee is an officer, director or owner of greater than 5% of our Common Stock at such time, and if we so request and a lead underwriter of any public offering of our Common Stock demands, the Grantee will agree not to sell, contract to sell, grant any option to purchase, transfer the economic risk of ownership in, make any short sale of, pledge or otherwise transfer or dispose of

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any interest in any of our Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire Common Stock (except Common Stock included in such public offering or acquired on the public market after such offering) during the 180-day period following the effective date of a registration statement filed under the Securities Act of 1933, as amended, or such shorter period of time as the Lead Underwriter may specify.

Other Terms Applicable to Restricted Stock

We may award Restricted Stock under the Plan on terms determined by the Plan Administrator at the time of grant. Generally, we will issue shares of Restricted Stock to a grantee at a price (the "Purchase Price") which the Plan Administrator determines at the time of grant. The shares are then classified as "Restricted Shares," and are subject to our right to repurchase them as set forth on a schedule to the Restricted Stock Agreement entered into between us and the grantee, under which we lose our repurchase rights, and the shares are no longer classified as "Restricted Shares." The number of shares as which our repurchase rights lapse will generally be determined by the passage of time, but may also be based on the happening of a specified event, such as the attainment of some predetermined performance criteria or a change in corporate ownership or control. The Plan Administrator will have discretion in determining the schedule and/or the events that will specify the terms and conditions of the Company's repurchase rights. Restricted Shares are required to be placed in escrow with us until such time as our repurchase rights lapse. We will generally be entitled to exercise our repurchase rights at any time within 90 days of the grantee's cessation of "Continuous Service" with the Company by paying an amount equal to the price paid by the grantee for the Restricted Shares.

If the Grantee is an officer, director or owner of greater than 5% of our Common Stock at such time, and if we so request and a lead underwriter of any public offering of our Common Stock demands, the Grantee will agree not to sell, contract to sell, grant any option to purchase, transfer the economic risk of ownership in, make any short sale of, pledge or otherwise transfer or dispose of any interest in any of our Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire Common Stock (except Common Stock included in such public offering or acquired on the public market after such offering) during the 180-day period following the effective date of a registration statement filed under the Securities Act of 1933, as amended, or such shorter period of time as the Lead Underwriter may specify.

Certain Federal Tax Consequences

The grant of an NSO under the Plan will not result in any federal income tax consequences to the optionee or to us. Upon exercise of an NSO, the optionee is subject to income taxes at the rate applicable to ordinary compensation income

on the difference between the option exercise price and the fair market value of the shares on the date of exercise. This income is subject to withholding for federal income and employment tax purposes. We are entitled to an income tax deduction in the amount of the income recognized by the optionee, subject to possible limitations imposed by Section 162(m) of the Code. Any gain or loss on the optionee's subsequent disposition of the shares will receive long-term or short-term capital gain or loss treatment, depending on whether the shares are

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held for more than one year following exercise. We do not receive a tax deduction for any such gain.

The grant of an ISO under the Plan will not result in any federal income tax consequences to the optionee or to us. An optionee recognizes no federal taxable income upon exercising an ISO (subject to the alternative minimum tax rules discussed below), and we receive no deduction at the time of exercise. The tax consequences of a disposition of stock acquired upon exercise of an ISO depends upon how long the optionee has held the shares. If the optionee does not dispose of the shares within two years after the ISO was granted, nor within one year after the ISO was exercised, the optionee will recognize a long-term capital gain (or loss) equal to the difference between the sale price of the shares and the exercise price. We are not entitled to any deduction under these circumstances.

If the optionee fails to satisfy either of the foregoing holding periods, he or she must recognize ordinary income in the year of the disposition, which we refer to as a disqualifying disposition. The amount of such ordinary income generally is the lesser of (i) the difference between the amount realized on the disposition and the exercise price, or (ii) the difference between the fair market value of the stock on the exercise date and the exercise price. Any gain in excess of the amount taxed as ordinary income will be treated as a long-term or short-term capital gain, depending on whether the stock was held for more than one year. We are entitled to a deduction equal to the amount of ordinary income recognized by the optionee in the year of the disqualifying disposition.

The "spread" under an ISO, i.e., the difference between the fair market value of the shares at exercise and the exercise price, is classified as an item of adjustment in the year of exercise for purposes of the alternative minimum tax calculation of the optionee.

The grant of restricted stock will subject the grantee to ordinary compensation income on the difference between the amount paid for such stock and the fair market value of the shares on the date that the restrictions lapse. This income is subject to withholding for federal income and employment tax purposes. We are entitled to an income tax deduction in the amount of the ordinary income recognized by the grantee, subject to possible limitations imposed by Section 162(m) of the Code. Any gain or loss on the grantee's subsequent disposition of the shares will receive long-term or short-term capital gain or loss treatment depending on whether the shares are held for more than one year and depending on how long the stock has been held since the restrictions lapsed. We do not receive a tax deduction for any such gain.

Recipients of restricted stock may make an election under Section 83(b) of the Code to recognize as ordinary compensation income in the year that such restricted stock is granted the amount equal to the spread between the amount paid for such stock and the fair market value on the date of the issuance of the stock. If such an election is made, the grantee recognizes no further amounts of compensation income upon the lapse of any restrictions and any gain or loss on subsequent disposition will be long-term or short-term capital gain to the grantee. An election under Section 83(b) must be made within 30 days from the time the restricted stock is issued.

The foregoing is only a summary of the current effect of federal income taxation upon the grantee and us with respect to the shares purchased under the Plan. You should refer to the applicable provisions of the Code. In addition, the summary does not discuss the tax consequences of a grantee's death or the income tax laws of any municipality, state or foreign country to which the grantee may be subject.

Plan Benefits

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We have not issued or planned or committed to issue any Awards under the Plan as of the date of this Proxy Statement. Assuming our shareholders approve the Plan, and our 2003 Stock Option Plan is terminated, we expect to commence to use the Plan for issuance of equity compensation as has been customary in the past.

Board Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL TO APPROVE THE 2007 EQUITY INCENTIVE PLAN.

9

PROPOSAL NO. 3

STOCK ISSUANCE PLAN - ISSUANCE OF SHARES OF THE COMPANY'S COMMON STOCK IN EXCESS OF 20% OF THE AMOUNT OF OUR EXISTING OUTSTANDING SHARES AND NOT MORE THAN 3 MILLION SHARES, INCLUDING SHARES OF COMMON STOCK POTENTIALLY UNDERLYING PREFERRED STOCK, OPTIONS AND WARRANTS

Background and Overview

We currently anticipate the likely need to raise additional capital to finance our growth plans including the possible acquisition of an equipment manufacturer, the development of a proposed activated carbon ("AC") manufacturing facility and/or to fund the future expansion of an existing AC manufacturing facility, as well as for general working capital purposes. Since we believe we currently have the financial resources available internally to fund the growth activities presently approved by the Board, we believe that it would be beneficial for the Company to be positioned to raise capital for future financing needs on an expedited basis in order to take advantage of the timing of favorable market conditions, and may be on terms and conditions where the issuance of the security is not restricted or otherwise limited upon issuance, conversion or exercise. Because our common stock is listed for trading on the NASDAQ Capital Market (formerly the NASDAQ Small Cap), the issuance of our common stock, or securities that are convertible or exercisable into common stock, is subject to the NASDAQ Marketplace Rules, including Rule 4350. Under Rule 4350(i)(1)(B) and 4350(i)(1)(D), shareholder approval must be obtained when (a) the issuance or potential issuance will result in a change of control of the issuer (the "Change of Control Rule"); or (b) where the transaction is other than a public offering and involves: (x) the sale, issuance or potential issuance of common stock at a price less than the greater of book or market value which, together with sales by officers, directors or substantial shareholders of the issuer, equals 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance; or (y) the sale, issuance or potential issuance of common stock equal to 20% or more of the common stock (or of the voting power) outstanding before the issuance for less than the greater of book or market value of the stock (the "20% Rule"). We are therefore seeking your approval now for the issuance of common stock or securities exercisable for or convertible into common stock that, absence such approval, would violate the Change of Control Rule and/or the 20% Rule. If this proposal is approved, we will be able to engage in a financing transaction or a series of financing transactions in which we will be allowed to issue more than 20% of our outstanding common stock (as of the date prior to the newly authorized issuance) but not more than a total of 3 million shares, either directly, upon conversion of a preferred stock, or through the exercise of warrants issued in that financing.

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Potential Dilutive Effect on Existing Shareholders

Regardless of the type of security that is issued in connection with any future capital raising efforts, it is anticipated that such security or securities will constitute, either directly or by conversion or exercise, more than 20% of our then issued and outstanding common stock and a total of not more than 3 million shares and, accordingly, could be materially and substantially dilutive to our existing shareholders. We currently anticipate raising up to \$60 to 80 million in new capital from a future financing or series of future financings, but the terms of any such financing have not been determined at this time. However, we would issue no more than 3 million shares of our common stock (either directly or by the conversion of preferred stock and the exercise of warrants that would be issued in connection with any such direct common stock or preferred stock issuance or issuances. As a result, the maximum amount of dilution that may be experienced by current shareholders would be an aggregate of 3 million shares of common stock underlying the securities that may be issued in any such financing or financings. It is currently anticipated that in connection with such financing or series of financings, we will issue either common stock, convertible preferred stock, warrants, or some combination thereof, which could result in gross proceeds to us of up to \$80 million in the aggregate, exclusive of any proceeds we may receive upon exercise of warrants that may be issued in such a financing. As it is anticipated that the future issuance price, conversion price or exercise price, as applicable, will be determined in relation to the market price of our common stock at the time of such issuance, it is impossible to determine what that price will be at this time. Accordingly, we can only provide you with information based upon the maximum amount of dilution you would experience in the event the maximum number of shares reserved for such purposes were issued in any such future financing or financings. Finally, in order to provide our existing shareholders with as much dilution protection as possible, the price per share, conversion price or exercise price, as applicable, will not be greater than a 10% discount to the market price of our common stock at such time.

Use of Proceeds from the Financing

As described in detail in our Annual Report on Form 10-K, we develop and implement proprietary environmental technology and provide specialty chemicals that enable coal-fueled power plants to enhance existing air pollution control equipment, maximize capacity and improve operating efficiencies. As a part of

10

this business, we are actively involved in designing, marketing and supplying mercury emissions control systems to coal-fueled power plants. A key compound used in the mercury emissions control systems we provide is powdered activated carbon ("AC"), which is typically injected in the ductwork after the boiler and acts to reduce mercury emissions from the flue gas. An important aspect of this part of our business requires that we be able to supply our customers with an adequate supply of activated carbon meeting standards required for effective mercury emissions reduction, and we have devoted substantial resources to be able to do so. We believe that the existing and available supply of AC needed for the developing mercury emissions control ("MEC") market will be unable to meet the demand for the material as early as 2010. We commissioned a market study from a third party to address the current worldwide production and expected future demand for activated carbon in both the conventional water treatment markets and the developing MEC market. This study documented that the current U.S. market for activated carbon, which is primarily for water treatment, is approximately \$200 million per year. With regulations in place

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today to reduce mercury emissions, this could more than double by 2010, and in addition, if a more stringent federal regulation comes into effect, the demand could more than triple by that time. As a result, we have been investigating the possibility of either purchasing an existing AC facility or developing a new "Greenfield" facility to manufacture activated carbon. We are currently pursuing plans to develop a new "Greenfield" facility, while exploring the parallel possibility of entering into a collaborative project with an existing AC manufacturer to increase capacity. We have committed approximately \$4 million for the preparatory phase of this project through August, 2007, including plant location, design and permitting, as well as determining and sourcing key capital equipment that would be required for such a facility. A large-scale production facility, which is expected to cost in excess of \$200 million to develop, and which will have the capacity to produce approximately \$100 million worth of activated carbon per year, is being designed to maximize efficiency and produce the most cost-effective product for the MEC market. Such a project will require supplementary financing, and we anticipate that financing will involve a combination of equity and debt funding from financial and strategic partners. As a result, and if the Board determines to move ahead with the project after the current preparatory phase, we would expect to use the gross proceeds from the financing for which approval is being sought hereby to finance the development of a proposed AC manufacturing facility or to fund the future acquisition of an existing AC manufacturing facility, as well as for general working capital purposes. For near-term AC supplies, ADA-ES and Calgon Carbon Corporation have signed a MOU to explore working closely together on both a marketing and product development basis, which is intended to result in a formal joint marketing agreement to address the ever increasing MEC market, within the next few several months.

Necessity for Shareholder Approval

NASDAQ Marketplace Rule 4350 includes both the Change of Control Rule and the 20% Rule. Our Amended and Restated Articles of Incorporation allows us to issue both common stock and preferred stock as to which the Board can designate the rights, preferences and privileges of any series of such preferred stock. However, unless the securities are issued in a public offering, the issuance of common stock or the conversion of any such preferred stock that has a conversion price below the market price on the date of issuance must comply with the 20% Rule, or if the conversion price is at or above market and the conversion would result in the issuance of greater than 20% of the outstanding common stock on a post-conversion basis, such issuance must comply with the Change of Control Rule. Although we do not yet know the price of the securities to be offered in a future financing or series of financings, we are seeking shareholder approval at this time in order to be able to complete any such future financings in a timely manner in order to allow us to take advantage of favorable market conditions or heightened investor interest. Furthermore, we believe that the ability to issue securities without restriction on the issuance, conversion or exercise thereof will provide us with better leverage in negotiating the terms of any such future financing with potential investors.

In order to enable the Company to issue common stock, or allow purchasers of preferred stock or warrants to fully convert or exercise such securities, we must comply with the shareholder approval requirements of either the 20% Rule for any anticipated financing (other than in a public offering) where we propose to issue securities at a price below existing market, or the Change of Control Rule for any anticipated financing where we propose to issue securities at a price at or above market. We do not have terms, including the price of the securities issuable pursuant to the proposed financing, at this time, although the maximum amount of common stock or securities convertible into common stock discussed above will be the maximum amount of dilution experienced by our current shareholders as a result of any such issuance.

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Recommendation

The Board believes that it is in the Company's best interest for the shareholders to authorize the issuance of securities in a subsequent financing or series of financings as described herein, so that the Company can take advantage of market conditions and raise capital as needed to fund the Company's expansion plans.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL TO APPROVE THE ISSUANCE OF ADDITIONAL SHARES IN EXCESS OF 20% OF THE AMOUNT OF OUTSTANDING SHARES.

11

BOARD OF DIRECTORS

Our Board is responsible for establishing broad corporate policies and monitoring the overall performance of the Company. However, in accordance with corporate legal principles, the Board is not involved in day-to-day operating matters. Members of the Board are kept informed of the Company's business by participating in Board and committee meetings, by reviewing analyses and reports sent to them each month, and through discussions with the President and other officers.

BOARD COMMITTEES

The Board maintains audit, compensation and nominating and governance committees. In calendar 2006 each committee was composed of directors who qualify as "independent directors" as defined in NASD Rule 4200(a)(15). The charters of each committee are available on our website at www.adaes.com under "Investor Relations."

AUDIT COMMITTEE

Our Board has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which consists of Messrs. Derek Johnson, Ronald Johnson, Peterson, Smith and Swanson. Mr. Swanson serves as the chairman of the Audit Committee. Our Board has determined that Mr. Swanson is an Audit Committee Financial Expert. Mr. Swanson is "independent" as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

The role and functions of the Audit Committee are set out in the Audit Committee Charter, as amended, originally adopted by the Company's Board and most recently amended on September 23, 2005. The role of the Audit Committee is one of oversight of our accounting and financial reporting processes and audits of our financial statements. The Audit Committee's functions include the following: reviewing and assessing the Audit Committee Charter annually; reviewing the Company's relationships with its outside auditors and assessing the impact such relationships may have on the auditors' objectivity and independence; taking other appropriate action to oversee the independence of the outside auditors; reviewing and considering the matters identified in Statement on Auditing Standards No. 61 with the outside auditors and management; reviewing and discussing the Company's financial statements with the outside auditors and management; recommending whether the Company's audited financial statements should be included in the Company's Form 10-K for filing with the Securities and Exchange Commission ("SEC"); and reporting to the Board on all such matters. In performing its oversight function, the Audit Committee relies upon advice and

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information received in its discussions with the Company's management and independent auditors.

Report of the Audit Committee

The Audit Committee has (i) reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2006 with the Company's management; (ii) discussed with the Company's independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T regarding communication with audit committees (AICPA Professional Standards, Vol. 1, AU section 380); and (iii) received the written disclosures and the letter from the Company's independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the PCAOB in Rule 3600T, and has discussed with the Company's independent accountants the independent accountants' independence.

Based on the review and discussions with management and the Company's independent auditors referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for filing with the SEC.

| | | |
|----------------------|---------------------------|--------------------|
| The Audit Committee: | Richard Swanson, Chairman | Derek Johnson |
| | Ronald Johnson | Rollie J. Peterson |
| | Jeffrey C. Smith | |

NOMINATING AND GOVERNANCE COMMITTEE

Our Board has appointed a Nominating and Governance Committee consisting of Messrs. Caruso, Eaves, Derek Johnson and Peterson. Mr. Peterson serves as the chairman of the Nominating and Governance Committee. The responsibilities of the Committee, as set forth in the Nominating and Governance Committee Charter, include selecting director nominees for the Board, reviewing director compensation and benefits and submitting to the entire Board for approval, overseeing the annual self-evaluation of the Board and its committees,

12

recommending the structure and composition of Board committees to the entire Board for approval and monitoring in conjunction with the Audit Committee compliance with our Code of Conduct and granting any waivers thereto with respect to directors and executive officers. Criteria established for the selection of candidates for the Board include:

- a. An understanding of business and financial affairs and the complexities of an organization that operates as a public company in the business of the Company;
- b. A genuine interest in representing all of our shareholders and the interests of the Company overall;
- c. A willingness and ability to spend the necessary time required to function effectively as a director;
- d. An open-minded approach to matters and the resolve and ability to independently analyze matters presented for consideration;
- e. A reputation for honesty and integrity that is above reproach;
- f. Any qualifications required of independent directors by the Nasdaq

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- Stock Market and applicable law; and
- g. As to any candidate who is an incumbent director (who continues to be otherwise qualified), the extent to which the continuing service of such person would promote stability and continuity in the Boardroom as a result of such person's familiarity and insight into the Company's affairs, and such person's prior demonstrated ability to work with the Board as a collective body.

Director nominees are generally identified by our officers, directors or shareholders based on industry and business contacts. Regardless of the source of the nomination, nominees are interviewed and evaluated by the Nominating and Governance Committee, and other members of the management team or board of directors as deemed appropriate by the Nominating and Governance Committee. The Nominating and Governance Committee then presents qualified candidates to the Board for a final discussion and vote.

Under the Nominating and Governance Committee Charter, the Nominating and Governance Committee will consider nominees submitted by our shareholders. Recommendations of individuals that meet the criteria set forth in the Nominating and Governance Committee Charter for election at our 2008 annual meeting of shareholders may be submitted to the Committee in care of Mark H. McKinnies, Secretary, at 8100 SouthPark Way, Unit B, Littleton, Colorado 80120 no later than January 5, 2008.

The Committee has recommended to our Board the slate of directors for this Annual Meeting as set forth above. No third party was used in identifying or evaluating nominees and we received no shareholder recommendations for nominees.

COMPENSATION COMMITTEE

Our Board has appointed a Compensation Committee consisting of Messrs. Caruso, Eaves, Ronald Johnson, Swanson and Smith. Mr. Johnson serves as the chairman of the Compensation Committee. The responsibilities of the Compensation Committee, as set forth in the Compensation Committee Charter, include reviewing our executive compensation programs to analyze their alignment with attracting, retaining and motivating our executive officers to achieve our business objectives; establishing annual and long-term performance goals for our executive officers and evaluating their performance in light of such goals, reviewing and making recommendations concerning our long-term incentive plans and shareholder proposals related to compensation and administering our equity-based and employee benefit plans. See "Executive Compensation - Compensation Discussion and Analysis" below for additional information.

DIRECTORS MEETINGS AND COMMITTEE MEETINGS

The Board of Directors met 11 times in 2006. At each of the regularly scheduled bi-monthly meetings an Executive Session is held where management of the Company is excluded. The Audit Committee met 9 times in 2006. The Compensation Committee met 8 times in 2006 and the Nominating and Governance Committee met 6 times in 2006. All of the incumbent directors, other than Mr. Swanson due to travels out of the country, were present for more than 75% of the meetings of Board of Directors and committees of which they were members held during their individual terms.

SHAREHOLDER COMMUNICATIONS TO DIRECTORS

Any shareholder may communicate directly with the Board (or any individual director) by writing to the Chairman of the Board, ADA-ES, Inc., 8100 SouthPark Way, Unit B, Littleton, Colorado 80120 or by emailing the Board through the "Contact the Board" link on our website at www.adaes.com. Any such communication should state the number of shares beneficially owned by the shareholder making the communication. Provided that such communication addresses a legitimate

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business issue, the Company or the Chairman will forward the shareholder's communication to the appropriate director. For any communication relating to accounting, auditing or fraud, such communication will be forwarded promptly to the Chairman of the Audit Committee.

13

EXECUTIVE OFFICERS

Information concerning our executive officers who are not director nominees is provided below. See "Election of Directors" above for information regarding Dr. Durham and Mr. McKinnies.

| | Age | Positions and Offices |
|---------------------|-----|--|
| | --- | ----- |
| Jonathan S. Barr | 49 | Vice President Sales and Marketing |
| C. Jean Bustard | 49 | Chief Operating Officer |
| Richard L. Miller | 53 | Vice President Business Development for Utility Systems |
| Richard J. Schlager | 55 | Vice President Contract Research and Development |
| Sharon J. Sjostrom | 40 | Vice President Technology |

Each of the officers named above serves from year to year at the pleasure of the Board.

Mr. Barr has been Vice President Sales and Marketing of the Company since July 2004. From 1998 to early 2004, Mr. Barr was a National Vice President of Sales and Regional Vice President of Sales and Marketing for Arch Coal. From 1994 to 1998, Mr. Barr was with the C&O unit of CSX Transportation, where he served as the Director of River Coal Marketing and Market Manager for Utility Coal. Mr. Barr has a B.S. in Political Science/Business Administration from Wittenburg University.

Ms. Bustard was appointed Chief Operating Officer of the Company in June 2004. Prior to that appointment she served as Executive Vice President of ADA Environmental Solutions, LLC, our wholly owned subsidiary, beginning with its formation in 1996. Ms. Bustard was employed by ADA Technologies from 1988 through 1996. Ms. Bustard holds a B.S. in Physics Education from Indiana University, an M.A. in Physics from Indiana State University and an MBA from the University of Colorado.

Mr. Miller has served as our Vice President of Business Development since November 2005. He was previously employed by Hamon Research-Cottrell (HRC), from 1990 to November 2005, most recently as Vice President of Sales with primary responsibility in Particulate and Mercury Control Technologies. Prior to 1989, Mr. Miller was employed by Buell/GE Environmental in various technical and sales positions with direct responsibility for all fabric filter technologies. Mr. Miller has also served as Chairman of Fabric Filter Division of Institute of Clean Air Companies. Mr. Miller has an A.A.S. in Marine Science Technology from Southern Maine Technology and a B.S. Degree in Management from Lebanon Valley College.

Mr. Schlager has been employed by the Company as Vice President, Contract Research and Development since 2000 and was employed by ADA Technologies from 1989 until that time. Mr. Schlager holds a B.S. in Chemistry and an M.S. in Metallurgical Engineering from the Colorado School of Mines.

Ms. Sjostrom was appointed a Vice President effective January 1, 2007.

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Previously she served the Company as Director, Technology Development since 2003 when we acquired her company EMC Engineering, LLC, where she served as President since 2002. From 1998 until September 2002, Ms. Sjostrom served as Director of Emissions Control for Apogee Scientific, LLC. Ms. Sjostrom has a B.S. in Mechanical Engineering from Colorado State University and an M.S. in Mechanical Engineering from the California Institute of Technology.

CODE OF ETHICS

We adopted a Code of Conduct that applies to our officers, directors and employees, including the principal executive officer, principal financial officer, principal accounting officer or controller or other persons performing similar functions, and includes a code of ethics as defined in Item 406(b) of Regulation S-K. A copy of our Code of Conduct is available on our website at www.adaes.com. We intend to disclose any amendments to certain provisions of our Code of Conduct, or waivers of such provisions granted to executive officers and directors, on our website.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information with respect to the beneficial ownership of the Company's common stock by (1) each of our shareholders whom we believe are beneficial owners of more than 5% of our outstanding common stock, (2) each of our directors and named executive officers and (3) all of our directors and executive officers as a group. We base the share amounts shown on each person's beneficial ownership as of April 15, 2007 (including options

14

exercisable within 60 days thereof), unless we indicate some other basis for the share amounts. Except as noted below, each of the individuals named below has sole voting and investment power for the respective shares.

| Name and Address | Amount and Nature of Beneficial Ownership |
|---|---|
| Jonathan S. Barr (VP Sales and Marketing) 8100 SouthPark Way, Littleton, CO | 19,333(1) |
| C. Jean Bustard (Chief Operating Officer) 8100 SouthPark Way, Littleton, CO | 29,583(2) |
| Robert Caruso (Director) 8100 SouthPark Way, Littleton, CO | - |
| Michael D. Durham (Director and President) 8100 SouthPark Way, Littleton, CO | 164,983(3) |
| Dynamis Advisors LLC 310 Fourth Street, NE, Suite 101, Charlottesville, VA | 525,126(4) |
| John W. Eaves (Director) 8100 SouthPark Way, Littleton, CO | 1,000 |

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| | |
|--|--------------|
| Derek Johnson (Director) 8100 SouthPark Way, Littleton, CO | - |
| Ronald B. Johnson (Director) 8100 SouthPark Way, Littleton, CO | 10,270 (5) |
| Mazama Capital Management, Inc. One Southwest Columbia St.,Portland, OR | 302,300 (4) |
| Mark H. McKinnies (Director, Secretary, Senior VP and CFO) 8100 SouthPark Way, Littleton, CO | 67,817 (6) |
| Richard Miller (VP Business Development of Utility Systems) 8100 SouthPark Way, Littleton, CO | 9,997 (7) |
| Rollie J. Peterson (Director) 8100 SouthPark Way, Littleton, CO | 32,580 (8) |
| Richard J. Schlager (VP of Contract R&D) 8100 SouthPark Way, Littleton, CO | 24,855 (9) |
| Sharon M. Sjostrom (VP Technology) 8100 SouthPark Way, Littleton, CO | 5,999 (10) |
| Jeffrey C. Smith (Director) 8100 SouthPark Way, Littleton, CO | 11,136 (11) |
| Richard Swanson (Director) 8100 SouthPark Way, Littleton, CO | - |
| Wellington Management Co. LLP 75 State Street, Boston, MA | 490,075 (4) |
| Directors and Officers as a Group (14 individuals) | 379,917 (12) |

* Less than 1%.

Notes:

- (1) The amount represents shares to which Mr. Barr has the right to acquire beneficial ownership through stock options.
- (2) Included in the amount shown are 8,458 shares to which Ms. Bustard has the right to acquire beneficial ownership through stock options and 10,933 shares held in Ms. Bustard's Retirement Plan account.
- (3) Included in the amount shown are 45,842 shares held in Dr. Durham's Retirement Plan account and 16,445 shares Dr. Durham has the right to acquire beneficial ownership through stock options.
- (4) As of December 31, 2006 per Schedule 13G filed with the U.S. SEC.
- (5) Included in the amount shown are 8,603 shares held by the Johnson Family Trust and 1,667 shares to which Mr. Johnson has the right to acquire beneficial ownership through stock options.
- (6) Included in the amount shown are 33,117 shares held in Mr. McKinnies' Retirement Plan account, 500 shares held as trustee for the MJ Kraft Trust, and 12,281 shares Mr. McKinnies has the right to acquire beneficial ownership through stock options.
- (7) Included in the amount shown are 9,750 shares to which Mr. Miller has the right to acquire beneficial ownership through stock options, 225 shares

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owned jointly with Mr. Miller's spouse and 22 shares owned by the Mrs. Jeanne R. Ferron and Richard L. Miller Joint Tenancy with Right of Survivorship ("Tenancy"), with respect to which in both cases Mr. Miller shares voting and investment power. Mr. Miller disclaims beneficial ownership of the 22 shares held by the Tenancy as they would automatically be sold upon Mrs. Ferron's death.

- (8) Included in the amount shown are 3,333 shares to which Mr. Peterson has the right to acquire beneficial ownership through stock options.

15

- (9) Included in the amount shown are 8,969 shares to which Mr. Schlager has the right to acquire beneficial ownership through stock options and 12,086 shares held in Mr. Schlager's Retirement Plan account.
- (10) Included in the amount shown are 2,363 shares to which Ms. Sjostrom has the right to acquire beneficial ownership through stock options and 1,919 shares held in Ms. Sjostrom's Retirement Plan account.
- (11) Included in the amount shown are 3,333 shares to which Mr. Smith has the right to acquire beneficial ownership through stock options.
- (12) The amount shown includes 85,933 shares to which individuals in the group have the right to acquire beneficial ownership through stock options

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our philosophy for executive compensation is set forth in a document entitled "ADA-ES Executive Compensation Plan" (the "EC Plan") which was adopted by the Board on November 4, 2004. The EC Plan applies to the Executive Team, which includes the President/Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, and all Vice Presidents of the Company. Executives become eligible to participate in this plan after completing 12 months of continuous service with ADA-ES. This may be modified based on Board's approval.

The ADA-ES compensation philosophy was designed to support our goals in creating a reputation that can be leveraged to build our business and reward shareholders, executives and employees. The business goals include: creating a steady stream of new and profitable products; developing sustainable, return business; becoming the first company called for pollution control jobs; becoming a household name in the utility industry; and ensuring a reputation for outstanding service and value to customers. Compensation goals include: linking the interests of shareholders with the interests of executives; maintaining a reliable link to the market; giving the organization access to quality candidates; and providing pay recognition for executives as a result of business success.

Executive compensation decisions are based on these considerations:

| Leveraged Reputation Goal | Quantitative/Qual Performance Me |
|--|---------------------------------------|
| Creating a steady stream of new and profitable products and chemicals, | Product Performance and Effectiveness |
| Developing sustainable, return business | Reported Revenue & Net Income |

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| | |
|--|-------------------------------------|
| ----- Becoming the first company called for pollution control jobs ----- | Utility Industry and Sorbent Indust |
| Recognized leader for the products and services we supply in the utility industry ----- | Government, Industry Partner and C |
| Ensuring a reputation for outstanding service and value to customers ----- | Customer Satisfaction |

Executive compensation generally consists of three elements: base salary, performance incentives and equity awards. Presently, all compensation is paid out currently and we do not have any long-term plans related to compensation. The Compensation Committee does not have specific policies for allocating between cash and non-cash compensation.

The Compensation Committee establishes the level of pay for all executive officers. The CEO makes recommendations as to compensation of other executive officers to the Committee. Base salary is defined as ongoing, cash compensation paid bi-weekly based on such factors as job responsibilities, external competitiveness, and the individual's experience and performance. Pay ranges will be set based on the local market for similar positions, with consideration given to national rates of pay. Base salary is typically increased annually based on cost of living increases. The Compensation Committee approved an additional increase in the compensation of the Chief Operating Officer in 2007 based on comparable rates of pay in the market for her position and those employees who report to her. ADA-ES will attempt to ensure middle market pay for solid performers and consider higher levels of pay for outstanding performers. ADA-ES does not intend to be a market leader in base compensation. A decision to materially increase or decrease compensation would be based on the aforementioned factors. Any gains or losses that might have been realized from prior option awards are not considered in establishing current compensation levels. The Compensation Committee engaged Mountain States Employers Council (MSEC) to assist in the design and application of the EC Plan. MSEC advised on the appropriateness of bonus levels for executive positions and provided assistance in setting the weight for metrics and in modeling the EC Plan. We also use compensation survey information from MSEC to determine appropriate pay ranges. We do not benchmark compensation based on any reports.

16

Annual incentives are designed to motivate the management team to achieve critical short-term goals, typically one to two years, which are expected to contribute to the long-term health and value of the organization. Incentives may be paid in cash or equity as determined by the Board. It is expected that in the early years of the plan, payment will be primarily in stock, either through options or restricted shares.

Incentive amounts will be set based on organization level and market practices. The plan will focus on specific business objectives set at the beginning of each year. Objectives will be those quantitative metrics, such as revenue, income, or market share, which management and the Board determine are most important to the short and long term health and value of the organization. Potential incentive amounts for 2005 and 2006 performance were established at 50% and 40% of base salary for the CEO and other members of the executive team, respectively. In 2004, we adopted the Executive Stock Option Plan (the "2004 ESO Plan") discussed below, and granted all 200,000 options authorized under such plan to our then

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five executive officers, expecting to utilize the acceleration of vesting of such options, for so long as they are available, as the means for the next several years to pay any incentive amounts earned by the executive officers pursuant to the EC Plan who are also covered in the 2004 ESO Plan. To determine the value of each vested option share considered for accelerated vesting, the exercise price of \$8.60 per share, which was the fair value on the date of grant, was subtracted from the average closing stock price for the month of December of that year (i.e. \$22.39, \$16.42 and \$15.98 for 2004, 2005 and 2006, respectively). As a result, for the fiscal years 2004, 2005 and 2006 a total of 27,080, 38,428 and 17,258, respectively, of options were vested in payment of incentive amounts earned for those years. Of the original 200,000 options granted under the 2004 ESO Plan, 117,234 options remain available for vesting for future incentive payments. We have not granted options to the executive officers who received options under the 2004 ESO Plan since 2004. We generally grant options to new hires at the Board meeting following the commencement of employment. Mr. Miller was awarded 13,000 options at the Board meeting following his date of hire in December 2005 under the 2003 Plan described below. Our share-based compensation, including options granted under the 2003 Plan and the 2004 ESO Plan, is accounted for under the Statement of Financial Accounting Standards No. 123R (See Footnote 1 to the Consolidated Financial Statements included in Item 8 of our Form 10-K for the year ended December 31, 2006).

Options granted under the 2004 ESO Plan are considered non-qualified stock options ("NQSO"). A recipient is required to pay ordinary income tax on the difference, or "spread," between the grant price and the stock's market value when he purchases ("exercise") the shares. A loss may not be recognized if the grant price is greater than the exercise price. The greater of the grant price or the market value at the exercise date (the amount used for calculating the amount of ordinary income to be taxed, if any) becomes the tax basis of the stock for calculating future gains and losses upon disposition or transfer of the stock. A disposition of NQSO stock generally refers to any sale, exchange, gift or transfer of legal title of stock, including a transfer from a decedent who held NQSO stock to an estate, a transfer by a bequest or inheritance, or any transfer of NQSO stock between spouses or incident to a divorce. Any subsequent appreciation or decline in the stock is taxed at capital gains/loss rates when the stock is disposed of. If the NQSO stock is held for more than a year, the long-term capital gain/loss rate will apply. If the NQSO stock is held for one year or less, any gain or loss is short-term and generally taxed as ordinary income. The Compensation Committee chose NQSOs as the means for the next several years to pay any incentive amounts earned by the executive officers pursuant to the EC Plan because it believed such options aligned the interests of the executive officers with the interest of our shareholders, provided potential additional value from appreciation and allowed the recipient to determine the timing of tax consequences from the award.

Specific metrics to measure executive performance for 2006 were established in January 2006 and are shown in the following table. Performance metrics for 2007 were established in January 2007. The Compensation Committee discussed the 2006 performance metric to determine if changes were needed for 2007. The discussion centered on the appropriateness of the metrics and the weighting. It was determined that the definition of income should be changed to reflect income from operations rather than net income from all sources. It was further determined that the income metric should have greater weight to balance the importance of revenue and income. Also, in determining the appropriate merit increase level, we have begun to look at the actual market change for various job families in addition to published local CPI-U data. The market change is determined by tracking the year-over-year change in the median rate for a given position or job family using local salary surveys.

| INCENTIVES METRICS | WEIGHTING | |
|--------------------|-----------|------|
| | 2006 | 2007 |
| Revenue growth | 40 | 30 |

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| | | |
|----------------------------|-------|-------|
| Net Income before tax | 20 | 25 |
| Market Share | 15 | 20 |
| Industry Partner Relations | 10 | 10 |
| Customer Relations | 10 | 10 |
| Stock Price Appreciation | 5 | 5 |
| | ----- | ----- |
| TOTAL | 100 | 100 |
| | ===== | ===== |

17

The metrics include both objective (i.e. revenue growth, net income and stock price appreciation) and more subjective (i.e. market share, industry and customer relations) measurements. For the most part the objective goals are measured against the Company's approved budget. Management considered all of the goals established for 2006 as aggressive but attainable stretch goals. The actual earned percentage of the potential incentive amounts for 2006 was determined based on the following table that translates the measured metric performance. The incentive scale table for 2007 has not been established. As shown in the table, no incentive is paid for performance below 75% and as much as 130% of the potential incentive amount may be paid for performance of 110% of the goals. For 2006, performance measured by the metrics was approximately 84%, which, based on the table below, translates to an incentive percentage of approximately 38%. Applying this percentage to the potential incentive amounts for 2006 performance noted above of 50% and 40% of base salary for the CEO and other members of the executive team, respectively, incentive payments for 2006 amounted to approximately 19% and 15% of base salary for the CEO and other members of the executive team, respectively. For those executive officers covered by the 2004 ESO Plan (all executive officers as of December 31, 2006 except Mr. Miller), such amounts were paid in 2007 by accelerated vesting of options as discussed above. The incentive amount earned by Mr. Miller was paid in cash in 2007.

2006 Incentive Scale

| | Metric Performance | Incentive % |
|-------------------|-----------------------|-------------|
| | ----- | ----- |
| Performance Floor | 75.0% | 20.0% |
| 1st tier | 81.0% | 30.0% |
| 2nd tier | 87.0% | 45.0% |
| 3rd tier | 93.0% | 70.0% |
| Plan | 100.0% | 100.0% |
| Performance Max | 110.0% | 130.0% |

Annual incentives, if any, are approved for payment by the Compensation Committee/Board of Directors and are planned for payment by February 28th of the calendar year following the incentive period. Incentives paid in cash are subject to payroll taxes. These incentives can be deferred and paid to a designated beneficiary, although that has not been the case with any incentives awarded thus far. The Compensation Committee/Board of Directors uses the performance metrics as guidelines and may exercise discretion in determining incentives awarded. In prior years, the Compensation Committee/Board of Directors has elected to increase individual incentives awarded for specific performance beyond that measured by the metrics. For 2006, the Compensation Committee/Board of Directors elected to exclude the costs associated with the sale of the joint venture interest to NexGen in the determination of the net income before tax metric given that the \$1,000,000 payment for such interest was recognized as an equity transaction rather than revenue.

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From time to time the Board of Directors may feel it necessary to recognize exemplary performance of any executive with a cash award. Exemplary performance will be performance that the Board determines to have required significant effort and commitment and is determined to have had a significant positive impact on the current or future performance of the organization. No such payments were made in 2006.

The use of equity payments, such as using accelerated vesting of options granted under the 2004 ESO Plan to make incentive payments, is intended to link short-term success to long-term performance and decision making, and to align management and shareholder interests. Payments may be made in restricted shares or options, as determined by the Board, considering accounting and regulatory restrictions, and the financial condition of the Company. No equity awards were made in 2006; however, vesting on previously granted stock options was accelerated for incentives earned in 2006 as noted above and as shown below in the "Option Exercises and Stock Vested During Year Ended 12/31/06" table.

There is no severance pay policy or other benefits payable after termination for any executive. See "Employment Contracts and Termination of Employment and Change-in-Control Arrangements" below regarding executives' obligations after termination.

In the event of a restatement of income, any over-payments made to executives may be reclaimed at the discretion of the Board of Directors.

18

In 2006 we obtained key man term insurance for our CEO, COO and CFO in the amount of \$2 million for each individual. The policies may be assigned to the individuals upon termination of employment other than for cause whereupon the executive would be responsible for any premium payments.

Executives are encouraged to own a number of shares of stock equal to a value of at least one (1) times the annual base salary as a condition of continued employment with ADA-ES. Executives have five (5) years from the later of November 4, 2004 (the date the EC Plan was adopted) or the date of hire to accomplish this level of ownership. Ownership is calculated considering holdings of restricted stock, whether or not the restrictions have expired, private holdings, and shares held in retirement accounts. Holding of options also will be considered in the ownership calculation by adding the value of the spread of in-the-money options to the total value of other holdings. No analysis was performed for 2006 to see if encouraged ownership levels were met.

After ownership requirements have been met, executives may sell unrestricted stock they have owned for a period greater than 12 months, and may not exercise vested stock options and sell shares to pay for the exercise price and withholding tax, except as otherwise provided for in the underlying stock option agreement. The Company must be advised of any sale of stock options or shares of stock at least 30 days in advance or be engaged in a pre-announced program sale in compliance with federal securities laws, and such sales must be made in compliance with our insider trading policy.

Executives leaving the company are required to hold their stock in the company for at least 6 months after leaving the company.

Executives may also be eligible to participate in the Company's Profit Sharing Plan ("PSP"). For fiscal 2006 the profit sharing pool was established as twenty-four percent (24%) of net earnings before taxes, investment income and certain other adjustments at the end of the fiscal year. In February 2007 the

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Compensation Committee/Board of Directors approved a total payment of \$147,000 for 2006 on reported net earnings and also approved an additional \$100,000 discretionary bonus, which would have been earned under the PSP if the costs associated with the sale of the JV interest to NexGen had been excluded for the calculation of net earnings. The Committee/Board considered such exclusion appropriate given the significance to the Company of the \$1,000,000 payment received from NexGen although such payment was not recognized as revenue. The pool is expected to be distributed to our employees by no later than February 15th as follows:

1. Retirement Plan (50%)
2. Company-Wide Distribution (20%)
3. Performance Based Distribution (30%)

Retirement Plan (50%): This portion of the PSP is distributed among our employees based on meeting the participation requirements in our current qualified Retirement Plan described below. Individual distributions are pro-rated as a percent of total compensation as required by the Retirement Plan. The distribution may be made in either stock or cash at our Board of Director's discretion. Vesting rules as outlined in the current PSP (described below) apply for these distributions to employees. Employees with less than a year of service and temporary employees, as defined in the PSP, are not eligible for this portion of the pool.

Company-Wide Distribution (20%): This portion of the PSP is distributed evenly among all of our full-time permanent employees with pro-rated distributions for partial years of service. Employees terminated during the year forfeit eligibility for this portion of the PSP. An early distribution of this portion of the PSP was offered in December 2006 to those employees electing it.

Performance Based Distribution (30%): This portion of the PSP is distributed to all of our permanent full-time and part-time employees on a performance-based basis. Employees terminated during the year forfeit eligibility for this portion of the PSP. Employees are evaluated semi-annually by their direct supervisor based informally on criteria that may also be used in the formal performance appraisal, which is generally conducted annually. The current criteria that may be used for the evaluation includes, but is not limited to, job knowledge; communications; attitude and cooperation; leadership; planning, judgment and resourcefulness; and initiative and responsibility.

The following rating system is used for each criterion: 1 Point - Poor Performance, 2 Points - Improvement Needed, 3 Points - Achieving Expectations, 4 Points - Exceeding Expectations, and 5 Points - Excellent Performance.

The employee's supervisor will complete the rating form, with input from project managers or other personnel to whom said employee supports. Should an employee receive an average rating for the two rating periods in 2006 of lower than 2.0, the employee will not be eligible to receive any performance-based distribution. Distributions are made based on the average rating and weighted by the commercial rates that we would charge out an individual's time to customers in effect at the end of the fiscal year.

Amounts paid directly to the named executives for the performance-based portion of the PSP are shown below in the Summary Compensation Table in the Bonus column. The retirement plan and company-wide distributions paid from the PSP pool are deposited to pension accounts under our Retirement Plan, a tax-qualified defined contribution plan, and are included in the amounts shown in that same table below in the All Other Compensation column.

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Our Retirement Plan covers all eligible employees. Pursuant to that plan, we make matching contribution to each eligible employee's account up to 5% of the employee's eligible compensation, and may make, at the discretion of the Board of Directors, contributions based on the profitability of the Company to those accounts. Investments in an employee's account may be made in stocks, bonds, mutual funds and other investments permitted by the Plan's administrator.

Employee contributions to the plan are 100% vested. Company contributions become 100% vested if an employee's employment ends after the date such employee attains normal retirement age (age 65), dies or becomes disabled. If an employee's employment is terminated prior to the date the employee attains normal retirement age (65) or dies or becomes disabled, the employee will become vested in the Company's matching contributions and any profit sharing contributions pursuant to the PSP according to the schedule below:

| Years of Vesting Service | Vested Percentage |
|--------------------------|-------------------|
| Less than 2 | 0% |
| 2 | 20% |
| 3 | 40% |
| 4 | 60% |
| 5 | 80% |
| 6 or more | 100% |

The following table show compensation during the fiscal years ended December 31, 2006, 2005 and 2004, of those persons who were, at December 31, 2006, our principal executive officer ("PEO"), principal financial officer ("PFO") and the three most highly compensated executive officers other than the PEO and PFO (collectively, "named executive officers" or "NEOs") of ADA-ES whose total compensation exceeded \$100,000. The structure of pay for each NEO is the same, although as noted above the potential performance incentive amount for the PEO was established at 50% of base pay for the years shown below and 40% for other NEOs.

Summary Compensation Table for Years Ended December 31, 2004, 2005 and 2006

| Name of Individual and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$)(2) | Non-Equity Incentive Plan Compensation (\$)(3) | Change Pension Value an Nonqualif Deferre Compensat Earnings |
|---|------|----------------|---------------|-------------------------|-----------------------------|--|--|
| Michael D. Durham President, CEO and Director (PEO) | 2006 | \$197,866 | \$-0- | \$-0- | \$10,291 | \$5,436 | \$-0- |
| | 2005 | \$189,352 | \$-0- | \$-0- | \$22,768 | \$6,881 | \$-0- |
| | 2004 | \$189,781 | \$-0- | \$-0- | \$22,082 | \$5,755 | \$-0- |
| Mark H. McKinnies Senior VP, CFO and Director (PFO) | 2006 | \$186,029 | \$-0- | \$-0- | \$7,533 | \$5,142 | \$-0- |
| | 2005 | \$178,048 | \$-0- | \$-0- | \$17,156 | \$6,273 | \$-0- |
| | 2004 | \$179,137 | \$-0- | \$-0- | \$15,058 | \$5,755 | \$-0- |
| Richard L. Miller VP Business Development (1) | 2006 | \$135,250 | \$-0- | \$-0- | \$-0- | \$23,901 | \$-0- |
| | 2005 | \$10,000 | \$-0- | \$-0- | \$-0- | \$-0- | \$-0- |
| | 2004 | \$-0- | \$-0- | \$-0- | \$-0- | \$-0- | \$-0- |
| C. Jean Bustard | 2006 | \$142,242 | \$-0- | \$-0- | \$5,918 | \$4,973 | \$-0- |

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| | | | | | | | |
|---------------------|------|-----------|-------|-------|----------|---------|-------|
| COO | 2005 | \$136,378 | \$-0- | \$-0- | \$13,095 | \$6,273 | \$-0- |
| | 2004 | \$131,356 | \$-0- | \$-0- | \$8,041 | \$4,685 | \$-0- |
| Richard J. Schlager | 2006 | \$134,904 | \$-0- | \$-0- | \$5,613 | \$4,805 | \$-0- |
| VP of Contract | 2005 | \$128,618 | \$-0- | \$-0- | \$12,417 | \$6,063 | \$-0- |
| R&D | 2004 | \$112,901 | \$-0- | \$-0- | \$7,639 | \$4,685 | \$-0- |

- (1) Mr. Miller became an executive officer of the Company in December 2005.
- (2) The option amounts shown represent the fair value (computed at the date of grant in accordance with FAS 123R) of options to acquire shares granted in 2004 pursuant to our 2004 ESO Plan as described below, for which

20

accelerated vesting was awarded in payment of the EC Plan performance incentives earned for the fiscal year. The determination of the 2006 performance incentive payments is described above. See Footnote 1 to the Consolidated Financial Statements included in Item 8 of our Form 10-K for the year ended December 31, 2006 for the assumptions made in determination of the FAS 123R amounts.

- (3) Amounts represent payments made or accrued for the periods shown for the company-wide and performance based distributions pursuant to our PSP described above. The amount shown for Mr. Miller for 2006 also includes the performance incentive earned pursuant to the EC Plan discussed above. Mr. Miller is not covered under the 2004 ESO Plan and his incentive was paid in cash in 2007.
- (4) Amounts represent Company pension contributions under our PSP plus 401(k) matching payments made or accruing to the Retirement Plan by the Company for the benefit of the named individual.

Grants of Plan-Based Awards in 2006

| Name | Grant Date (1) | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |
|---------------------|----------------|--|
| ---- | ----- | ----- |
| Michael D. Durham | 2006 | \$5,436 |
| | 2005 | \$6,881 |
| Mark H. McKinnies | 2006 | \$5,142 |
| | 2005 | \$6,273 |
| C. Jean Bustard | 2006 | \$4,973 |
| | 2005 | \$6,273 |
| Richard L. Miller | 2006 | \$23,901 |
| | 2005 | \$-0- |
| Richard J. Schlager | 2006 | \$4,805 |
| | 2005 | \$6,063 |

- (1) Awards made pursuant to the PSP and, in the case of Mr. Miller, the EC Plan, are calculated annually after the fiscal year-end. The 2005 awards

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were paid in 2006 and the 2006 awards were paid in 2007.

- (2) Amounts represent cash payments made or accrued for the periods shown for the company-wide and performance based distributions pursuant to our PSP described above. The amount shown for Mr. Miller for 2006 also includes the performance incentive earned pursuant to the EC Plan discussed above. Mr. Miller is not covered under the 2004 ESO Plan and his incentive earned for 2006 was paid in cash in 2007.

Outstanding Equity Awards at December 31, 2006

| Name | Award Date (1) | Number of Securities Underlying Unexercised Options (#) Exercisable ----- (2) | Number of Securities Underlying Unexercised Options (#) Unexercisable ----- (2) | Equity Incentive Awards: Securities Underlying Unexercised Unearned |
|---------------------|-------------------|--|--|---|
| Michael D. Durham | 2006 | 5,119 | 32,565 | -0- |
| | 2005 | 11,326 | -0- | -0- |
| Mark H. McKinnies | 2006 | 3,747 | 24,629 | -0- |
| | 2005 | 8,534 | -0- | -0- |
| C. Jean Bustard | 2006 | 2,944 | 21,422 | -0- |
| | 2005 | 5,514 | -0- | -0- |
| Richard L. Miller | 2006 | -0- | -0- | -0- |
| | 2005 | 9,750 | 3,250 | -0- |
| Richard J. Schlager | 2006 | 2,792 | 19,331 | -0- |
| | 2005 | 6,177 | -0- | -0- |

- (1) Award dates reflect the timing of vesting of stock options granted on August 23, 2004 under the 2004 ESO Plan. Vesting was accelerated based on performance under our EC Plan, which is calculated annually after the

fiscal year-end, as described above, except in the case of Mr. Miller whose award was made pursuant to the 2003 Plan described below.

- (2) The securities shown as "Exercisable" and "Unexercisable" as of December 31, 2006 represent options to acquire shares granted in 2004 pursuant to our 2004 ESO Plan described below, except in the case of Mr. Miller whose securities represent options to acquire shares granted in 2005 pursuant to our 2003 Plan described below. The securities shown as "Exercisable" represent the options for which vesting has occurred pursuant to the 2003 Plan in the case of Mr. Miller or was accelerated under our EC Plan for performance with respect to the years ended December 31, 2006 and 2005 and vested by action of our Board of Directors on January 27, 2006 and February 26, 2007, respectively, for the other NEOs.

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We have not made any stock awards to the named executive officers.

Option Exercises during Year Ended 12/31/06

The table below shows the number of options exercised and value realized in 2006 by the named executive officers.

| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) |
|---------------------|--|---------------------------------|
| Michael D. Durham | -0- | \$-0- |
| Mark H. McKinnies | -0- | \$-0- |
| C. Jean Bustard | 1,000 | \$13,500 |
| Richard L. Miller | -0- | \$-0- |
| Richard J. Schlager | -0- | \$-0- |

Nonqualified Deferred Compensation

Although our EC Plan allows for deferrals of payment, the Company does not currently have any deferred compensation plans that apply to the NEOs.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

We have executed employment agreements with every full-time employee, including our executive officers, which contain the following provisions:

1. Automatic extensions for one-year periods.
2. Three months' prior written notice of intent to terminate by either the Company other than for cause, death or permanent disability or the employee.
3. Description of position, duties, authority, compensation, benefits and obligation of the employee to devote full time to the fulfillment of his/her obligations under the agreement.
4. Obligations to disclose and Company ownership of inventions and confidential subject matter, which obligations survive for two years after termination of employment.
5. Assignment of inventions, obligations regarding inventions and confirmation of no Company obligation to commercialize inventions, all of which survive after termination of employment.
6. Acknowledgement that copyright works are "works for hire" and obligation of employee to maintain written records of all inventions and confidential subject matter.
7. Restrictive obligations relating to confidential subject matter, which survive after termination of employment.
8. Acknowledgement and agreement regarding no conflicting obligations and obligations upon termination of employment.

The compensation amounts included in the employment agreements are subject to annual adjustment and the compensation levels for the named executive officers are shown in the tables above. None of our employment contracts or other agreements contain any provisions for the payment of any amounts that result from or will result from the resignation, retirement or any other termination of any executive officer's employment with us or from a change-in-control of the Company or a change in the named executive officer's responsibilities following a change-in-control except as described below.

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Under our stock incentive plans, unless otherwise provided in a stock option agreement, options held by a director, executive or employee are exercisable after such person's death or permanent disability without regarding to any vesting requirements of such options.

22

Upon, or in reasonable anticipation of, a change in control of the Company, approved incentive compensation awards under the PSP may be made for the incentive period during which the change in control occurs, and then paid immediately to a trustee on such terms as our Chief Financial Officer deems appropriate (including such terms as are appropriate to cause such payment, if possible, not to be a taxable event to the executive). The incentive compensation awards may be paid to executives either not later than the end of the first calendar quarter following the end of the calendar year to which the incentive compensation awards relate, or on a deferred basis in accordance with the elections of the executives affected as to the timing of the receipt of incentive compensation awards for such period. Executives who are eligible to receive an incentive compensation award for the incentive period in which a change in control occurs may be eligible to receive incentive compensation awards for the incentive plan year following the change in control.

Guidelines for determining the amount of the incentive compensation award payable to each executive include:

- o One-half of the maximum incentive compensation award payable (reduced as deemed appropriate by the Compensation Committee of the Board of Directors and approved by the Board of Directors, if applicable) to the executive if the change in control occurs during the first six months of the calendar year; or
- o The full maximum incentive compensation award payable (reduced as deemed appropriate by the Compensation Committee and approved by the Board, if applicable) to the executive if the change in control occurs during the second six months of the calendar year.

Compensation Committee Report

The Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed it with management. Based on its review and discussions with management, the Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

| | | |
|-----------------------------|--------------------------|-----------------|
| The Compensation Committee: | Ronald Johnson, Chairman | Robert Caruso |
| | John Eaves | Richard Swanson |
| | Jeffrey C. Smith | |

DIRECTOR COMPENSATION

Our Nominating and Governance Committee has responsibility for reviewing the compensation plan for our non-management directors annually and making recommendations to the entire Board for approval. In 2006, the Compensation Committee conducted such analysis and made such recommendations. Neither Committee has delegated authority to any other person to determine director compensation. Our executive officers have not had any role in recommending the amount or form of director compensation, but the two executive officers who serve on our Board do vote on the recommendations for director compensation made by the Committee to the Board. In the past, the Compensation Committee has reviewed industry data from the Mountain States Employers Council and has sought the input of representatives of such Council on its compensation structure and

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amounts. Mountain States Employers Council has been engaged by the Compensation Committee and was tasked with assisting in the design and application of the EC Plan. MSEC advised on the appropriateness of incentive levels for executive positions and provided assistance in setting the weight for metrics in modeling the EC Plan.

In addition to the stock and option grants discussed below under "Stock Incentive Plans," in 2006, prior to the changes described below, each non-management director was paid a fee of approximately \$600 per regular meeting, \$300 per committee or telephonic meeting or \$500 per committee meeting for serving as chairman of the committee. The Chairman of the Audit Committee was paid the greater of \$3,000 per month or an amount equal to hours worked times an hourly rate.

In August 2006, the Compensation Committee recommended, and the Board approved, a cost of living increase in director compensation of 3.5% over the previous year to bring it more in line with industry standards. Prior to that date the annual retainer due each non-management director was to be paid solely in stock of not more than 1,000 shares of stock per year. Under the new plan, each non-management director is entitled to receive an \$18,000 per year retainer payable in stock and cash commencing May 2006 or upon their commencement of service, with a cap of 1,000 shares of stock per year, and options to acquire 5,000 shares of our common stock upon initial appointment or election to the Board. Our directors also receive \$1,000 per Board meeting and \$500 per Board Committee or telephonic Board meeting. In addition, the Chairman of the Board and Chairman of the Audit Committee receive \$3,000 per year, the Chairman of the Compensation Committee receives \$2,000 per year, and the Chairman of our Nominating and Governance Committee receives \$1,000 per year for their services in such positions. These amounts are all paid in cash.

23

In May 2006, the Company secured directors and officers insurance coverage for its directors and executive officers. The annual cost of such coverage is approximately \$110,000.

Director Compensation During Year Ended 12/31/06

The following amounts were paid to our non-management directors who served during 2006. Dr. Durham and Mr. McKinnies do not receive any additional compensation for their service on the Board of Directors.

| Name ---- | Fees Earned or Paid in Cash (\$) ----- | Stock Awards (\$)(5) ----- | Option Awards (\$)(6) ----- | Non- Equit Incenti Plan Compen- sation ----- |
|--|--|-------------------------------------|--------------------------------------|--|
| Ramon E. Bisque (former Director) | \$ -0- | \$ 20,200 | \$ - | \$ |
| Duane N. Bloom (former Director) | \$ -0- | \$ 20,200 | \$ - | \$ |
| Robert N. Caruso (1) (Director) | \$ 13,868 | \$ - | \$ 6,618 | \$ |
| John W. Eaves (2) (Director) | \$ 21,569 | \$ 20,200 | \$ 10,901 | \$ |
| Derek Johnson (Director) | \$ 13,368 | \$ - | \$ 6,618 | \$ |
| Ronald Johnson(3) (Director) | \$ 52,529 | \$ 20,200 | \$ 10,901 | \$ |
| Robert H. Lowdermilk (former Director) | \$ 1,605 | \$ 20,200 | \$ - | \$ |

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| | | | | |
|-------------------------------|------------|------------|-----------|----|
| Rollie Peterson (Director) | \$ 22,258 | \$ 20,200 | \$ 10,901 | \$ |
| Jeff Smith (Director) | \$ 24,248 | \$ 20,200 | \$ 10,901 | \$ |
| Richard Swanson(4) (Director) | \$ 9,500 | \$ - | \$ 6,618 | \$ |
| | | | | |
| Totals | \$ 158,945 | \$ 141,400 | \$ 63,459 | \$ |
| | | | | |

Notes:

- (1) Amounts paid on behalf of services from Mr. Caruso are paid to B/3 Management Resources, LLC.
- (2) Amounts paid on behalf of services from Mr. Eaves are paid to Arch Coal, Inc.
- (3) Amounts paid on behalf of services from Mr. Ronald Johnson are paid to Twin-Kem International, Inc.
- (4) Amounts paid on behalf of services from Mr. Swanson are paid to R&K Corp.
- (5) The fair value of stock awards, which represents the closing price on the date of issuance of \$20.20 times the number of shares issued, for awards in January 2006 to each non-management director of 1,000 shares of common stock as a portion of his compensation for services performed from October 1, 2005 through September 30, 2006 pursuant to the 2005 Plan described below. The aggregate number of stock awards for each non-management director, in the order listed in the table, as of December 31, 2006 were 1,000, 1,000, 0, 1,000, 0, 1,000, 1,000, 1,000, 1,000, and 0.
- (6) The fair values of stock option awards, which were computed in accordance with FAS 123R, represent grants of options to purchase 5,000 shares of common stock to each new Director in August 2006 and in May 2005 to the continuing Directors all pursuant to the 2005 Plan described below. These options vest at a rate of 33% per year. The full grant date fair values of the stock option awards for each non-management director, in the order listed in the table were \$-0-, \$-0-, \$31,737, \$-0-, \$31,737, \$-0-, \$-0-, \$-0-, \$-0-, and \$-0-. The aggregate number of stock options outstanding for each non-management director, in the order listed in the table, as of December 31, 2006 were 0, 0, 5,000, 5,000, 5,000, 3,333, 0, 5,000, 5,000, and 5,000. See Footnote 1 to the Consolidated Financial Statements included in Item 8 of our Form 10K for the year ended December 31, 2006 for the assumptions made in determination of the FAS 123R amounts.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors and persons who beneficially own more than ten percent of a registered class of our equity securities to file reports of ownership with the SEC. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we are aware of the following delinquent filings: Jonathan Barr, Jean Bustard, Michael Durham, Mark McKinnies and Richard Schlager each failed to report the full amount of a stock option grant on August 23, 2004 and instead reported only the vested portion of such options as they vested in 2005, 2006 and 2007; each executive filed an amended Form 5 in April 2007 to report the entire grants. Ms. Bustard was late in reporting two sales of shares on Forms 4. Mr. Miller and Ms. Sjoström each was late in filing an initial Form 3. Robert Caruso was late in filing his initial Form 3 and in filing a Form 4 reporting a stock option grant; Mr. Eaves failed to file a Form 4 reporting a stock award but reflected such award on a timely basis on a Form 5, Derek Johnson was late in filing his initial Form 3 and failed to file a Form 4 reporting a stock option grant but reported such grant on an amended Form 5, each of Ron Johnson, Rollie Peterson and Jeff Smith

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was late in filing a Form 4 reporting a stock award to him, and Mr. Swanson was late in filing his Form 3 and in filing a Form 4 reporting a stock option grant. Each former director Ramon Bisque, Duane Bloom and Robert Lowdermilk was late in filing a Form 4 reporting a stock award to him and Form 5s terminating their Section 16 reporting obligations.

STOCK INCENTIVE PLANS

During 2003, we adopted the ADA-ES, Inc. 2003 Stock Option Plan (the "2003 Plan"). The plan is intended to encourage our key employees, through their individual efforts, to improve our overall performance and to promote profitability by providing these key employees with an opportunity to participate in the increased value they help create. The 2003 Plan is also intended to replace the options previously awarded by Earth Sciences, Inc., which has been cancelled. Options granted under the 2003 Plan may be in the form of "incentive stock options" as defined under section 422 of the Internal Revenue Code of 1986, as amended, or options that are not incentive stock options. The 2003 Plan is administered by our Board's Compensation Committee. The plan was approved by Earth Sciences, Inc. as our sole shareholder prior to the spin-off distribution of our shares. We reserved 400,000 shares of our common stock for issuance under the 2003 Plan. In general, all options granted under the 2003 Plan will lapse ten years from the date of grant. In general, the exercise price of an option will be determined by the Compensation Committee at the time the option is granted and will not be less than 100% of the fair market value of a share of our common stock on the date the option is granted. The Compensation Committee may provide in the option agreement that an option may be exercised in whole immediately or is exercisable in increments through a vesting schedule, which is typically 25% every six months with total vesting over two years. Under the 2003 Plan, the grant of options is limited to 20,000 per individual. During 2005 and 2006, 61,900 and 19,900, respectively, options were granted under the 2003 Plan. A total of 140,706 options remain available for future grants under the 2003 Plan. These available options will be cancelled if Proposal #2 is approved by the shareholders.

During 2004, we adopted the 2004 ESO Plan, which did not require shareholder approval. The 2004 ESO Plan authorized the grant of up to 200,000 options to purchase shares of our common stock to our executive officers. The 2004 ESO Plan is intended to promote our growth and profitability by awarding options to purchase our common stock in exchange for services performed and to be performed in the future. Options granted under the 2004 ESO Plan are generally intended to be non-qualified stock options ("NQSO") for federal income tax purposes.

(unaudited)

(unaudited)

REVENUE

Sales

\$
393,843

\$
1,283

TOTAL REVENUE

393,843

1,283

EXPENSES

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Operating expenses

469,281

263,094

TOTAL EXPENSES

469,281

263,094

NET OPERATING LOSS

(75,438
)

(261,811
)

OTHER INCOME (EXPENSE)

Interest income

440

905

Other income

66

-0-

Interest expense

(140,000
)

(61
)

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TOTAL OTHER INCOME (EXPENSE)

(139,494
)

844

LOSS BEFORE PROVISION FOR INCOME TAXES

(214,932
)

(260,967
)

PROVISION FOR INCOME TAXES

-0-

-0-

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NET LOSS

\$
(214,932
)

\$
(260,967
)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: BASIC AND DILUTED

13,628,067

12,853,190

NET LOSS PER SHARE: BASIC AND DILUTED

\$
(0.02
)

\$
(0.02
)

The accompanying notes are an integral part of these financial statements.

F-2

Table of Contents

OPTIMIZERx CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AS OF MARCH 31, 2011
(UNAUDITED)

| | Common Stock Shares | Common Stock Amount | Preferred Stock Shares | Preferred Stock Amount | Stock Warrants | Additional Paid-in Capital | Accumulated Deficit | Stockholders' Equity |
|---|------------------------|------------------------|------------------------------|------------------------------|-------------------|----------------------------------|------------------------|-------------------------|
| Balance, January 1, 2010 | 12,826,117 | \$12,826 | 35 | \$-0- | \$18,139,252 | \$1,747,962 | \$(19,047,728) | \$852,312 |
| Issuance of common stock: | | | | | | | | |
| for services | 161,000 | 161 | | | | 200,299 | | 200,460 |
| for preferred dividends | 410,520 | 411 | | | | 699,589 | (700,000) | -0- |
| to board of directors | 66,000 | 66 | | | | 130,614 | | 130,680 |
| Issuance of preferred stock | | | 15 | | | 1,500,000 | | 1,500,000 |
| Preferred stock issuance costs | | | | | | (350,000) | | (350,000) |
| Issuance of stock options: | | | | | | | | |
| for patent rights | | | | | | 360,000 | | 360,000 |
| to employees | | | | | | 6,203 | | 6,203 |
| Issuance of stock warrants: | | | | | | | | |
| for services | | | | | 186,425 | | | 186,425 |
| in connection with | | | | | 1,158,900 | (1,158,900) | | -0- |

| | | | | | | | | |
|--|------------|----------|----|------------|--------------|-------------|----------------|-------------|
| preferred stock issuance | | | | | | | | |
| Issuance of stock warrants and contingent stock warrants in connection with debt financing | | | | | 1,007,992 | | | 1,007,992 |
| Conversion of stock warrants to common stock | 68,039 | 68 | | (211,241) | 219,923 | | | 8,750 |
| Outstanding share adjustment | 75,000 | 75 | | | (75) | | | |
| Net loss for the year | | | | | | | (2,009,024) | (2,009,024) |
| Balance, December 31, 2010 | 13,606,676 | 13,607 | 50 | -0- | 20,281,328 | 3,355,615 | (21,756,752) | 1,893,798 |
| Outstanding share adjustment | 10,000 | 10 | | | | (10) | | |
| Issuance of common stock: for preferred dividends | 252,526 | 252 | | | | 249,748 | (250,000) | -0- |
| Net loss for the period | | | | | | | (214,932) | (214,932) |
| Balance, March 31, 2011 | 13,869,202 | \$13,869 | 50 | \$-0- | \$20,281,328 | \$3,605,353 | \$(22,221,684) | \$1,678,866 |

The accompanying notes are an integral part of these financial statements.

F-3

Table of Contents

OPTIMIZERx CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND MARCH 31, 2010
(UNAUDITED)

| | For the three months ended March 31, 2011 (unaudited) | For the three months ended March 31, 2010 (unaudited) |
|---|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (214,932) | \$ (260,967) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,050 | 8,129 |
| Stock issued for services | -0- | 27,960 |
| Amortization of debt discount | 125,000 | -0- |
| Changes in: | | |
| Accounts receivable | (112,911) | 13,775 |
| Prepaid expenses | 61,467 | (5,268) |
| Accounts payable | 60,735 | (19,417) |
| Payroll taxes payable | (700) | (34) |
| Accrued interest | 15,000 | -0- |
| Accrued expenses | (5,000) | (4,500) |
| Deferred revenue | (50,270) | -0- |
| TOTAL ADJUSTMENTS | 123,371 | 20,645 |
| NET CASH (USED BY) OPERATING ACTIVITIES | (91,561) | (240,322) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Website site development costs | (37,610) | (44,660) |
| NET CASH (USED BY) INVESTING ACTIVITIES | (37,610) | (44,660) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (129,171) | (284,982) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 1,278,094 | 656,394 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | \$ 1,148,923 | \$ 371,412 |

**SUPPLEMENTAL CASH FLOW
INFORMATION:**

| | | |
|------------------------|--------|-------|
| Cash paid for interest | \$ -0- | \$ 61 |
|------------------------|--------|-------|

| | | |
|----------------------------|--------|--------|
| Cash paid for income taxes | \$ -0- | \$ -0- |
|----------------------------|--------|--------|

**SUPPLEMENTAL DISCLOSURE OF NONCASH
INVESTING AND FINANCING ACTIVITIES:**

| | | |
|---|------------|--------|
| Common stock issued to satisfy dividends related to preferred stock | \$ 250,000 | \$ -0- |
|---|------------|--------|

| | | |
|--|--------|------------|
| Conversion of warrants to common stock | \$ -0- | \$ 153,816 |
|--|--------|------------|

| | | |
|--|--------|--------|
| Debt discount related to warrants issued in connection with debt financing | \$ -0- | \$ -0- |
|--|--------|--------|

The accompanying notes are an integral part of these financial statements.

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

1. NATURE OF BUSINESS

Optimizer Systems, LLC was formed in the State of Michigan on January 31, 2006. It then became a corporation in the State of Michigan on October 22, 2007 and changed its name to OptimizeRx Corporation. On April 14, 2008, RFID, Ltd., a Colorado corporation, consummated a reverse merger by entering into a share exchange agreement with the stockholders of OptimizeRx Corporation, pursuant to which the stockholders of OptimizeRx Corporation exchanged all of the issued and outstanding capital stock of OptimizeRx Corporation for 1,256,958 shares of common stock of RFID, Ltd., representing 100% of the outstanding capital stock of RFID, Ltd. As of April 30, 2008, RFID's officers and directors resigned their positions and RFID changed its business to OptimizeRx's business. On April 15, 2008, RFID, Ltd.'s corporate name was changed to OptimizeRx Corporation. On September 4, 2008, a migratory merger was completed, thereby changing the state of incorporation from Colorado to Nevada, resulting in the current corporate structure, in which OptimizeRx Corporation, a Nevada corporation, is the parent corporation, and OptimizeRx Corporation, a Michigan corporation, is a wholly-owned subsidiary (together, "OptimizeRx" and "the Company").

The wholly-owned subsidiary, OptimizeRx Corporation, is a technology solutions company targeting the health care industry. Their objective is to bring better access to better care through connecting patients, physicians and pharmaceutical manufacturers through technology. Once defined as a marketing and advertising company through its consumer website, OptimizeRx is maturing as a technology solutions provider as it launched its direct to physician solution, SampleMD. SampleMD allows physicians to search, print and send available sample trial vouchers and/or co-pay coupons on behalf of their patients. The SampleMD solution can either sit on the doctor's desktop or can be integrated into the ePrescribing or Electronic Medical Records applications. OptimizeRx solutions provide pharmaceutical manufacturers either a direct to consumer and/or direct to physician channels for communicating and promoting their products. It provides health care providers a means to provide sampling and coupons without having to physically store samples on site, and it provides better access and affordability to the patients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied to the preparation of the financial statements.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Form 10-K filed with the SEC as of and for the period ended December 31, 2010. In the opinion of management, all adjustments necessary for the financial statements to be not misleading for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Accounting Basis

The Company uses the accrual basis of accounting and accounting principles generally accepted in the United States of America (“GAAP” accounting). The Company has adopted a December 31 fiscal year end.

Principles of Consolidation

The financial statements reflect the consolidated results of OptimizeRx Corporation (a Nevada corporation) and its wholly owned subsidiary OptimizeRx Corporation (a Michigan corporation). All material inter-company transactions have been eliminated in the consolidation.

Development Stage in Prior Periods

OptimizeRx was in the development stage from October 3, 2008 to May 31, 2010. The year ending December 31, 2010 is the first year during which the Company is considered an operating company and is no longer in the development stage.

Reclassifications

Certain accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statements.

Cash and Cash Equivalents

For purposes of the accompanying financial statements, the Company considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The fair value of cash, accounts receivable and accounts payable approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which the Company could borrow funds with similar remaining maturities.

Property and Equipment

The capital assets are being depreciated over their estimated useful lives, three to seven years using the straight-line method of depreciation for book purposes.

Research and Development

The Company's key members are part of a continual research development team and monitor new technologies, trends, services and partnerships that can provide the Company with additional services, value to healthcare and pharmaceutical industries and to the patients it serves.

The Company seeks to educate team members through understanding of all market dynamics that have the potential to affect the business both short term and longer term. The primary goal is to help patients better afford and access the medicines their doctor prescribes, as well as other healthcare products and services they need. Based on this, the Company continually seeks better ways to meet this mission through technology, better user experiences and new ways to engage industries to provide new support for patients needing their products. The Company is always seeking new services and solutions to offer. At this time, the three current platforms provide robust opportunities and growth during the next five years.

Revenue Recognition

All revenue is recognized when it is earned. Revenues are generated either through the Company's website activities, in which we earn revenue from advertising and lead generation activities, or from our SampleMD activities, which include offering setup within the systems and our offers, coupons, and vouchers that enable our customers to save money on medical products and services. The Company's processes are monitored by third parties who collect revenues from clients on a per activity basis and report and forward the revenue to the Company's account.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the depreciable lives of such assets and the allowance for doubtful accounts receivable. Actual results could differ from these estimates.

Earnings Per Common and Common Equivalent Share

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Options warrants and convertible preferred stock which are common stock equivalents are not included in the diluted earnings per share calculation for March 31, 2011 and 2010, respectively, since their effect is anti-dilutive.

Impairment of Long-Lived Assets

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risks

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts; however, amounts in excess of the federally insured limit may be at risk if the bank experiences financial difficulties.

Recently Issued Accounting Guidance

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

3. PREPAID EXPENSES

Prepaid expenses consisted of the following:

| | 3/31/11 | 12/31/10 |
|--------------------|----------|----------|
| Insurance | \$ 5,104 | \$ 6,110 |
| Web development | 10,000 | 20,000 |
| Investor relations | -0- | 50,000 |
| Employee advances | 479 | 940 |
| Advertising | 3,000 | 3,000 |

| | | |
|-----------------------------|-----------|-----------|
| Property and equipment, net | \$ 18,583 | \$ 80,050 |
|-----------------------------|-----------|-----------|

4. PROPERTY AND EQUIPMENT

The Company and the LLC owned equipment recorded at cost which consisted of the following:

| | 3/31/11 | 12/31/10 |
|-----------------------------|-----------|-----------|
| Computer equipment | \$ 13,824 | \$ 13,824 |
| Furniture and fixtures | 4,294 | 4,294 |
| Subtotal | 18,118 | 18,118 |
| Accumulated depreciation | (5,510) | (5,058) |
| Property and equipment, net | \$ 12,608 | \$ 13,060 |

Depreciation expense was \$452 and \$1,751 for the three months ended March 31, 2011 and for the year ended December 31, 2010, respectively.

Table of Contents

OPTIMIZER_x CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2011

5. WEBSITE DEVELOPMENT COSTS

The Company has capitalized costs in developing their website and web-based products, which consisted of the following:

| | 3/31/11 | 12/31/10 |
|---------------------------------|------------|------------|
| OptimizeRx Web development | \$ 154,133 | \$ 154,133 |
| SampleMD web development | 369,717 | 332,107 |
| Subtotal, web development costs | 523,850 | 486,240 |
| Accumulated amortization | (110,970) | (95,050) |
| Impairment | (59,083) | (59,083) |

| | | |
|----------------------------|------------|------------|
| Web development costs, net | \$ 353,797 | \$ 332,107 |
|----------------------------|------------|------------|

The Company began amortizing the OptimizeRx website costs, using the straight-line method over the estimated useful life of 5 years, once it was put into service in December of 2007. During the year end December 31, 2009, the Company began a new web-based project and the related programming and development costs have been capitalized for the SampleMD website. The project was completed in mid-December 2010 and no amortization was recorded in 2010. Amortization began on the straight-line method in January 2011 over the period of five years. Although the Project was completed in mid-December, the Company continues to enhance and upgrade the website. Monthly payments for these upgrades have been capitalized, but not amortized, as of March 31, 2011. The Company determined that the original OptimizeRx website was no longer useful so the remaining unamortized balance of \$59,083 was impaired as of December 31, 2010. Amortization expense was \$15,920 for the three months ended March 31, 2011 and \$30,827 for the year ended December 31, 2010, respectively.

6. PATENT RIGHTS AND INTANGIBLE ASSETS

On April 26, 2010, the Company acquired from an officer and shareholder the technical contributions and assignment of all exclusive rights to and for the SampleMD patent currently in process in exchange for 300,000 shares of common stock to be granted at the discretion of the seller in addition to 200,000 stock options valued at \$360,000. The shares were valued on the grant date at \$570,000 and have been recorded as a payable to the related party.

The Company has capitalized costs in purchasing the SampleMD patent, which consisted of the following:

| | 3/31/11 | 12/31/10 |
|--|------------|------------|
| Patent rights and intangible assets | \$ 930,000 | \$ 930,000 |
| Accumulated amortization | (41,030) | (27,353) |
| Patent rights and intangible assets, net | \$ 888,970 | \$ 902,647 |

F-10

Table of Contents

OPTIMIZER_x CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2011

6. PATENT RIGHTS AND INTANGIBLE ASSETS (CONTINUED)

The Company began amortizing the patent, using the straight-line method over the estimated useful life of 17 years, once it was put into service in July 2010. Amortization expense was \$13,677 for the three months ended March 31, 2011 and \$27,353 for the year ended December 31, 2010, respectively.

7. ACCRUED EXPENSES

Accrued expenses consisted of the following:

| | 3/31/11 | 12/31/10 |
|-----------------------|---------|----------|
| Accrued payroll taxes | \$ -0- | \$ 700 |
| Accrued audit fees | -0- | 5,000 |
| Accrued expenses | \$ -0- | \$ 5,700 |

8. DEFERRED REVENUE

The Company has signed several contracts with customers for coupon redemptions on their website. The payments are not taken into revenue until the end user redeems the coupon. The redemptions are tracked via their website and revenues are recorded as the coupons are redeemed. Deferred revenue was \$175,450 and \$225,720 as of March 31, 2011 and December 31, 2010, respectively.

9. NOTE PAYABLE

On October 5, 2010, the Company issued a secured promissory note of \$1,000,000 to an investor. The note accrues interest at 6% per annum, compounded on April and October each year and will be paid at the earliest of September 12, 2012 or earlier at the Company's option. No principal or interest payments are required until the maturity date. Accrued interest was \$15,000 as of December 31, 2010. The terms of the note also granted 1,000,000 stock warrants and 1,000,000 contingent stock warrants in connection with the financing. The non-contingent warrants were valued at \$1,007,992 with \$1,000,000 recorded as debt discount and \$7,992 recorded as interest expense in the December 31, 2010 year. The Company analyzed the assumptions associated with the contingent warrants and determined that the performance objectives were not likely to occur in 2011. Therefore, no value was recorded for the contingent warrants. The debt discount derived from the warrant valuation of \$1,000,000 will be amortized over the life of the loan using the straight-line method and charged to interest expense. As of March 31, 2011 and December 31, 2010, \$218,333 and \$83,333, respectively, had been amortized with the remaining balance of \$791,667 at March 31, 2011 to be amortized through October 5, 2012.

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

10. COMMON STOCK

OptimizeRx Corporation has 500,000,000 shares of \$.001 par value common stock authorized as of December 31, 2010. There were 13,869,202 and 13,606,676 common shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively.

During 2009, 284,000 shares were issued as compensation for services valued at \$1,008,240. There were 365,908 shares issued in a cashless exchange of common stock warrants during the year ended December 31, 2009.

On March 11, 2010, the Company issued 12,000 shares of common stock for services valued at \$27,960.

On April 20, 2010, the Company issued 66,000 shares to board members for services valued at \$130,680.

Additionally on May 27, 2010, the Company issued 25,000 for services valued at \$42,500.

On September 27, 2010, the Company issued 100,000 shares of common stock for services valued at \$100,000.

On October 14, 2010, the Company issued 24,000 shares to a board member or advisory services valued at \$30,000.

During the year ended December 31, 2010, the Company issued 410,520 shares of common stock to satisfy \$700,000 of preferred dividends.

On February 19, 2010, 75,400 stock warrants were exercised for 43,039 shares of common stock in a cashless exchange.

On May 19, 2010, 25,000 stock warrants were exercised for 25,000 shares of common stock for total proceeds of \$8,750.

On April 26, 2010, the Company acquired from an officer and shareholder the technical contributions and assignment of all exclusive rights to and for the SampleMD patent currently in process in exchange for 300,000 shares of common stock to be granted at the discretion of the seller in addition to 200,000 stock options valued at \$360,000. The shares were valued on the grant date at \$570,000 and have been recorded as a payable to the related party.

During the quarter ended March 31, 2011, the Company issued 252,526 shares of common stock to satisfy \$250,000 of preferred dividends.

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

11. PREFERRED STOCK

Series A Preferred

During the year ended December 31, 2008, 35 preferred shares were issued for \$3,500,000. Issuance costs totaled \$515,000 resulting in net proceeds of \$2,985,000. The 35 shares are convertible to 3,500,000 shares of common stock and bear a 10% cumulative dividend. In addition, there was a warrant issued to purchase 6,000,000 shares of common stock at an exercise price of \$2 for a period of seven years.

The holders of the preferred stock are entitled to semi-annual dividends payable on the stated value of the Series A preferred stock at a rate of 10% per annum, which shall be cumulative, and accrue daily from the issuance date. The dividends may be paid in cash or shares of the Company's common stock at management's discretion. If after the conversion eligibility date, the market price for the common stock for any ten consecutive trading days in which the stock trades for over \$2 per share and trading exceeds 100,000 shares per day, the preferred shareholders can be required to convert their shares to common stock. Each share of Series A preferred stock shall also be convertible at the option of the holder into that number of shares of common stock of the Company at the stated value of such share at a \$1 conversion price.

The holder may cause this conversion at the time the shares are eligible for resale by the holder. The conversion price is subject to adjustment as hereinafter provided, at any time, or from time to time upon the terms and in the manner hereinafter set forth in the shareholder agreement. There is no conversion expiration date, however, the holder must provide 30 days notice for the registration of the conversion.

On May 12, 2010, the Company's Board declared and issued 236,598 common shares as payment for all cumulative and current semi-annual dividends. On November 16, 2010, the Company's Board declared and issued 173,922 common shares for its semi-annual dividend payment. On March 25, 2011, the Company's Board declared and issued 176,768 common shares for its semi-annual dividend payment.

Series B Preferred

During the year ended December 31, 2010, 15 preferred shares were issued for \$1,500,000. The 15 shares are convertible to 1,500,000 shares of common stock and bear a 10% cumulative dividend. In addition, there was a warrant issued to purchase 2,000,000 shares of common stock at an exercise price of \$3 for a period of seven years.

The preferred stock was issued for \$1,500,000 less associated issuance costs of \$350,000 for net proceeds of \$1,150,000. Additionally, 3,000,000 common stock warrants were issued with the preferred stock. Based on the fair values of the preferred stock and common stock warrants on the issue date, \$341,100 was allocated to preferred stock and \$1,158,900 was allocated to the common stock warrants. Equity issuance costs of \$350,000 were allocated to the preferred stock.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

11. PREFERRED STOCK (CONTINUED)

Series B Preferred

The holders of the preferred stock are entitled to semi-annual dividends payable on the stated value of the Series B preferred stock at a rate of 10% per annum, which shall be cumulative, and accrue daily from the issuance date. The dividends may be paid in cash or shares of the Company's common stock at management's discretion. If after the conversion eligibility date, the market price for the common stock for any ten consecutive trading days in which the stock trades for over \$2 per share and trading exceeds 100,000 shares per day, the preferred shareholders can be required to convert their shares to common stock. Each share of Series B preferred stock shall also be convertible at the option of the holder into that number of shares of common stock of the Company at the stated value of such share at a \$1.50 conversion price.

The holder may cause this conversion at the time the shares are eligible for resale by the holder. The conversion price is subject to adjustment as hereinafter provided, at any time, or from time to time upon the terms and in the manner hereinafter set forth in the shareholder agreement. On March 25, 2011, the Company's Board declared and issued 75,758 common shares for its semi-annual dividend payment.

In the event the Company has added at least 1,750 active physicians to the system, and added 35 brands, the Company may issue and sell at its option, and the Purchaser agrees to purchase, up to 15 shares of the Company's Series B Preferred Stock at a subsequent date, provided that the date cannot occur earlier than November 1, 2010. If the conditions have not been fulfilled prior to June 30, 2011, the Purchaser shall have no obligation to purchase any securities from the Company.

12. STOCK OPTIONS AND WARRANTS

The Company accounts for employee stock-based compensation in accordance with the guidance of ASC Topic 718: Compensation - Stock Compensation, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

The Company follows ASC Topic 505-50, formerly EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods and Services," for stock options and warrants issued to consultants and other non-employees. In accordance with ASC Topic 505-50, these stock options and warrants issued as compensation for services provided to the Company are accounted for based upon the fair value of the services provided or the estimated fair market value of the option or warrant, whichever can be more clearly determined. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital over the period during which services are rendered.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

12. STOCK OPTIONS AND WARRANTS (CONTINUED)

The Company issued 300,000 stock warrants in connection with non-employee services. The Company also issued 750,000 warrants as part of employment agreements with various employees. The Company has accounted for these warrants as equity instruments in accordance with EITF 00-19 (ASC 815-40), Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, and as such, will be classified in stockholders' equity as they meet the definition of "...indexed to the issuer's stock" in EITF 01-06 (ASC 815-40) The Meaning of Indexed to a Company's Own Stock. The Company has estimated the fair value of the warrants issued in connection with the non-employee services at \$618,031, and the employment agreements at \$1,321,226, as of December 31, 2009 using the Black-Scholes option pricing model.

The fair value of each option and warrant granted in 2009 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 44% to 233%, risk-free interest rate of .04% to .15% and expected life of 60 months.

During the year ended December 31, 2009, the Company exchanged 173,000 common stock warrants with an exercise price of \$1 and 108,908 common stock warrants with an exercise price of \$2, for 365,908 shares of common stock in a cashless exchange. This exchange has been reflected in the stockholders' equity for 2009.

On January 6, 2010, the Company issued 25,000 stock warrants for services to a consultant with an exercise price of \$0.35. The warrants were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 259%, risk-free interest rate of 2.6% and expected life of 60 months. The Company recognized consulting expense of \$57,425.

On June 4, 2010, the Company issued 3,000,000 stock warrants in connection with the preferred stock issuance with an exercise price of \$3.00. The warrants were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 260%, risk-free interest rate of 2.65% and expected life of 84 months. The Company recorded the stock warrants valued at \$5,096,472 in an equity transaction.

On July 1, 2010, the Company issued 100,000 stock warrants for services to a consultant with an exercise price of \$2.50. The warrants were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 241%, risk-free interest rate of 1.26% and expected life of 60 months. The Company recognized consulting expense of \$129,000.

Continued...

Table of Contents

OPTIMIZER_x CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

12. STOCK OPTIONS AND WARRANTS (CONTINUED)

On October 5, 2010, the Company issued 1,000,000 stock warrants and 1,000,000 contingent stock warrants in connection with the Company's debt financing with an exercise price of \$2.25. The warrants were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 241%, risk-free interest rate of 1.83% and expected life of 84 months. The non-contingent warrants were valued at \$1,007,992 with \$1,000,000 recorded as debt discount and \$7,992 recorded as interest expense in the current period. The company analyzed the assumptions associated with the contingent warrants and determined that the performance objectives were not likely to occur in 2011. Therefore, no value was recorded for the contingent warrants. The Company recorded \$125,000 and \$83,333 of the debt discount as interest expense in the three months ended March 31, 2011 and the year ended December 31, 2010 with the remaining balance of \$791,667 to be amortized over the remaining term of the loan. See Note 9.

On April 26, 2010, the Company issued 200,000 stock options to acquire from an officer and shareholder the technical contributions and assignment of all exclusive rights to and for the SampleMD patent currently in process in exchange for 300,000 shares of common stock to be granted at the discretion of the seller in addition to 200,000 stock options with an exercise price of \$1.81. The options were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 262%, risk-free interest rate of 2.54% and expected life of 60 months. The Company capitalized \$360,000 as patent rights for these options.

On October 1, 2010, the Company issued 25,000 stock options to an employee with a vesting period of one year and an exercise price of \$1.21. The options were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 241%, risk-free interest rate of 1.26% and expected life of 60 months. The Company recognized share-based compensation expense of \$6,203 during the year ended December 31, 2010 with the remaining balance of \$18,610 to be recognized in 2011. \$6,203 has been recognized in the three months ended March 31, 2011.

13. COMMITMENTS AND CONTINGENCIES

The Company leases their offices for \$2,500 a month on a month-to-month rental.

14. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company acquired from an officer and shareholder the technical contributions and assignment of all exclusive rights to and for the SampleMD patent currently in process in exchange for 300,000 shares of common stock to be granted at the discretion of the seller in addition to 200,000 stock options valued at \$360,000. The shares were valued on the grant date at \$570,000 and have been recorded as a payable to the related party. See Notes 6, 11 and 13.

Table of Contents

OPTIMIZER_x CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2011

15. MAJOR CUSTOMERS

The Company has two major customers that accounted for approximately 76% and 55% of revenues for the three months ended March 31, 2011 and for the year ended December 31, 2010, respectively. The Company expects to continue to maintain these relationships with the customers.

16. INCOME TAXES

For the three months ended March 31, 2011, the Company incurred a net loss of approximately \$215,000 and therefore has no tax liability. The Company began operations in 2007 and has previous net operating loss carry-forwards of \$16,256,000 through December 31, 2010. The cumulative loss of \$16,471,000 will be carried forward and can be used through the year 2030 to offset future taxable income. In the future, the cumulative net operating loss carry-forward for income tax purposes may differ from the cumulative financial statement loss due to timing differences between book and tax reporting.

The provision for Federal income tax consists of the following at March 31, 2011 and December 31, 2010:

| | 3/31/11 | 12/31/10 |
|---|-----------|------------|
| Federal income tax benefit attributable to: | | |
| Current operations | \$ 73,000 | \$ 683,000 |
| Valuation allowance | (73,000) | (683,000) |
| Net provision for federal income tax | \$ -0- | \$ -0- |

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows:

| | 3/31/11 | 12/31/10 |
|-------------------------------------|--------------|--------------|
| Deferred tax asset attributable to: | | |
| Net operating loss carryover | \$ 3,935,000 | \$ 3,862,000 |
| Valuation allowance | (3,935,000) | (3,862,000) |
| Net deferred tax asset | \$ -0- | \$ -0- |

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forwards of approximately \$11,359,000 for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur net operating loss carry forwards may be limited as to use in future years.

F-17

Table of Contents

OPTIMIZER_x CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2011

17. OPERATING EXPENSES

Operating expenses consisted of the following for the three months ended March 31, 2011 and 2010:

| | 3/31/11 | 3/31/10 |
|------------------------------|----------------|----------------|
| Advertising | \$ 37,265 | \$ 34,105 |
| Professional fees | 106,214 | 16,603 |
| Consulting | 46,775 | 31,644 |
| Salaries, wages and benefits | 173,714 | 137,224 |
| Rent | 7,500 | 7,500 |
| General and administrative | 97,813 | 36,828 |
| Total Operating Expenses | \$ 469,281 | \$ 263,904 |

18. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has sustained substantial losses since inception.

In view of this matter, the ability of the Company to continue as a going concern is dependent upon growth of revenues and the ability of the Company to raise additional capital. Management believes that its successful ability to raise capital and their plans for increases in revenues will provide the opportunity for the Company to continue as a going concern.

19. SUBSEQUENT EVENTS

In accordance with SFAS 165 (ASC 855-10) the Company has analyzed its operations subsequent to March 31, 2011 through May 10, 2011 and has determined that it does not have any material subsequent events to disclose in these financial statements.

Table of Contents

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

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimate," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. We intend for such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Results of Operations for the Three Months Ended March 31, 2011 and 2010

Revenues

Our total revenue reported for three months ended March 31, 2011 was \$393,843, an increase from \$1,283 for the three months ended March 31, 2010.

Our increased revenue for the three months ended March 31, 2011 as compared with the prior year period is a result of our SampleMD solution and the setup and integration fees for pharmaceutical manufacturers whom are participating within this offering.

Table of Contents

Operating Expenses

Operating expenses increased to \$469,281 for the three months ended March 31, 2011 from \$263,094 for the same period ended 2010. A detail of the significant expenses for the three months ended March 31, 2011 as compared to the prior year period is set forth below:

| | 2011 | 2010 |
|-------------------------------|------------|------------|
| OPERATING EXPENSES | | |
| Advertising | \$ 37,265 | \$ 34,105 |
| Auto expense | \$ 18,701 | \$ 2,889 |
| Consulting | \$ 46,775 | \$ 31,644 |
| Depreciation and amortization | \$ 30,050 | \$ 8,129 |
| Development costs | \$ 22,237 | \$ 3,570 |
| Professional fees | \$ 106,214 | \$ 17,353 |
| Rent | \$ 7,500 | \$ 7,500 |
| Repairs and maintenance | | |
| Salaries, Wages and Benefits | \$ 173,714 | \$ 137,224 |
| Website maintenance | \$ 10,000 | \$ 2,480 |

Our operating expenses are higher on all categories as a result of ramping up operations, as we have transformed from a development stage company to an operating company.

Other Income/Expenses

Other expenses were \$140,000 for the three months ended March 31, 2011 as compared with other income of \$844 for same period ended 2010. Interest expenses was the major factor for other expenses for the period ended March 31, 2011 .

Net Loss

Net loss for the three months ended March 31, 2011 was \$214,932, compared to net loss of \$260,967 for the same period 2010.

Table of Contents

Liquidity and Capital Resources

As of March 31, 2011, we had total current assets of \$2,006,417 and total assets in the amount of \$3,553,459. Our total current liabilities as of March 31, 2011 were \$874,593. We had working capital of \$1,131,824 as of March 31, 2011.

Operating activities used \$91,561 in cash for the three months ended March 31, 2011. Our net loss of \$214,932 and accounts receivable of \$112,911 were the primary components of our negative operating cash flow, offset mainly by \$125,000 in amortization of debt discount, \$61,467 in prepaid expenses, and \$60,735 in accounts payable. Investing activities used \$37,610 during the three months ended March 31, 2011 as a result of website development costs. Financing activities provided \$1,508,750 for the nine months ended March 31, 2011 largely as a result of the sale of our Series B Preferred Stock.

On October 5, 2010, we issued a secured promissory note (the "Note") in the principal amount of \$1,000,000 to Physicians Interactive, Inc., a Delaware corporation (the "Investor"). The Investor also received a seven year warrant to purchase up to 1,000,000 shares of our common stock at an initial exercise price of \$2.25 per share and a contingent seven year warrant to purchase up to an aggregate of 1,000,000 shares of our common stock at an initial exercise price of \$2.00 based on royalties we may receive under a Strategic Partnering Agreement we entered into with Physicians Interactive Holdings, LLC (together the "Warrants").

The Note accrues interest at a rate of 6% per annum, compounded on April and October each year, which will be paid together with the repayment of the principal amount at the earliest of (i) September 12, 2012; (ii) prepayment of the Note at our option (iii) the occurrence of an Event of Default (as defined in the Note); or (iv) the "Maturity Date" as defined in our Certificate of Designation for our Series B Convertible Preferred Stock.

The Notes and Warrants were issued pursuant to a Securities Purchase Agreement (the "Purchase Agreement") dated as of October 5, 2010 with the Investor. The Investor is entitled to certain contractual benefits under the Purchase Agreement, which are summarized as follows:

- § Until June 4, 2012 or until prepayment in full of all obligations under the Note, the right, subject to certain exceptions, to participate in any subsequent sale of our common stock or any securities convertible into our common stock up to 30% of the amount of the financing;
- § At any time when the Note is outstanding, the right to nominate a designee of Investor for election to our Board of Directors and to provide such nominee with D&O insurance coverage;
- § At any time when the Note is outstanding, we are prohibited from: issuing dividends or repurchasing our outstanding shares, incurring certain indebtedness, issuing securities that are senior to the Note; disposing of 20% of our assets; incurring a change in control; increasing the authorized size of our Board of Directors; entering into certain transactions with affiliates; or registering certain shares; and
- § Upon the occurrence and continuance of an Event of Default (as defined in the Purchase Agreement), the Investor may at any time (unless all defaults shall theretofore have been remedied) require us to pay immediately 125% of the sum of all unpaid principal on the Note plus all accrued but unpaid interest and other amounts payable thereunder.

Our wholly-owned subsidiary, OptimizeRx Corporation, a Michigan corporation (the "Guarantor"), entered into a Guaranty Agreement (the "Guaranty") with Investor to guarantee the prompt and complete payment when due of all principal, interest and other amounts under the Note. The obligations under the Guaranty are independent of our

obligations under the Note and separate actions may be brought against the Guarantor.

Table of Contents

Vicis Capital Master Fund, a sub-trust of Vicis Capital Series Master Trust, a unit trust organized and existing under the laws of the Cayman Islands (“Vicis”) was instrumental in facilitating our \$1,000,000 financing transaction with Investor by participating and by making certain concessions in our transaction documents with the Investor. As previously reported, we entered into two financing transactions with Vicis. The first was a Securities Purchase Agreement for the sale of Series A Convertible Preferred Stock dated as of September 8, 2008 and the second was a Securities Purchase Agreement dated as of June 4, 2010 for the sale of Series B Convertible Preferred Stock (the “Vicis Financings”). In connection with the Vicis Financings, we granted Vicis a security interest in our assets and further agreed to register certain shares brought about by the financings. In order to induce the Investor to enter into an agreement with us, Vicis agreed to modify its security agreement and registration rights agreement.

Specifically, we entered into a Second Amended and Restated Security Agreement with Vicis and the Investor, which granted the parties a security interest in substantially all of our assets. The Guarantor also entered into a Second Amended and Restated Guarantor Security Agreement with Vicis and the Investor, which granted the parties a security interest in substantially all of the Guarantor’s assets.

We further entered into an Amended and Restated Registration Rights Agreement with Vicis and the Investor to file a registration statement upon demand to cover the resale of the shares of our common stock issuable upon exercise of the Investor’s Warrants, the shares of our common stock issuable upon conversion of Vicis’ Series B Convertible Preferred Stock, and the shares of our common stock issuable as dividends on the Series B Convertible Preferred Stock.

We were also a party to a Securityholders’ Agreement where Vicis and the Investor contracted over matters including, the maturity date for the Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, preemptive rights for future financings, and voting rights for ominee directors. Finally, we were a party to an Intercreditor Agreement where Vicis and the Investor contracted over matters including, confirming the relative priority with respect to our collateral assets, providing for the orderly sharing of the proceeds of such assets, and agreeing upon the terms of the subordination of our obligations.

As of March 31, 2011, with the current level of financing and cash on hand, we have sufficient cash to operate our business at the current level for the next twelve months but insufficient cash to achieve our business goals unless we: a) realize cash revenues on sales generated; b) meet the milestones as defined in the second round of financing with Vicis and satisfy the conditions to secure the second tranche of funding; and/or c) obtain additional financing through debt and/or equity based financing arrangements which may be insufficient to fund our capital expenditures, working capital, or other cash requirements. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all.

Off Balance Sheet Arrangements

As of March 31, 2011, there were no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information required by this Item.

Table of Contents

Item 4T. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2011. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. David Lester. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures are effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect such controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Aside from the following, we are not a party to any pending legal proceeding, and we are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

On February 10, 2011, we commenced an action against Beringea, LLC (“Beringea”) in the Circuit Court for the County of Oakland in the State of Michigan. The action is based on a dispute between our company and Beringea surrounding a capital raising agreement that was entered into on October 15, 2009. We have alleged that Beringea has failed to perform under the agreement, misinformed us about “tail” liability, and is wrongfully withholding funds due to us. We are seeking \$400,000 in damages.

On August 18, 2010, we commenced an action against Midtown Partners & Co., LLC (“Midtown Partners”) in the Circuit Court for the County of Oakland in the State of Michigan. The action is based on a dispute between our company and Midtown Partners surrounding a placement agent agreement that was entered into on June 27, 2008. We filed the action seeking declaratory relief that no compensation is due and owing to Midtown Partners in connection with an investment made by Vicis on June 4, 2010.

Midtown Partners removed the action to the United States District Court for the Eastern District of Michigan. We are in the initial pleading stage of this litigation.

Item 1A: Risk Factors

A smaller reporting company is not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the current reporting period, we issued the following securities:

We issued 252,526 shares of common stock to satisfy \$255,051 of preferred dividends.

We issued 10,000 shares of common stock at \$1.00 per share for total proceeds of \$10,000.

These issuances were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended, since, among other things, the transactions did not involve a public offering, the investors were accredited investors and / or qualified institutional buyers, the investors had access to information about the Company and their investment, the investors took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

Item 3. Defaults upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Description

Number of Exhibit

| | |
|-------------|--|
| <u>31.1</u> | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>31.2</u> | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>32.1</u> | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |

9

Table of Contents

SIGNATURES

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

OptimizeRx Corporation

Date: May 16, 2011

By: /s/ David Lester
David Lester

Title: Chief Executive Officer, Chief Financial Officer, and Director