

Midwest Energy Emissions And The Domino Effect

Aug. 7, 2020 3:30 PM ET8 comments | 2 Likes

by: Sergio Heiber

Summary

- MEEC in partnership with the EPA has developed a more efficient and cheaper mercury emission control solution.
- Legislation across the globe mandates high emission standards.
- MEEC claims that at least 100 companies have infringed on their patent and has initiated legal action.
- The first company to settle with MEEC was just announced.
- I expect that other companies will follow and settle with MEEC in order to avoid higher costs including retroactive damages and legal fees.

Midwest Energy Emissions Corp. (OTCQB:MEEC) is a provider of mercury emission control solutions for coal fired energy generating units ("EGUs"). MEEC collaborated with the Environmental Protection Agency's ("EPA") Energy & Environmental Research Center to develop Sorbent Enhancement Additive (SEA[®]) technologies. The company began commercialization of SEA products and services in 2008 and bought the patent portfolio in 2017. The company now has over 50 patents for use in North America, Europe and Asia.



The research for the development of SEA included public funding and therefore was available for public consumption. The majority of EGU companies chose an illegitimate supplier or produced their own version of MEEC's patented sorbent. Management claims that there are over 100 offenders. The company has retained legal representation and filed a patent infringement lawsuit in July 2019 against seven energy producing companies.

The first company to settle, Vistra, was announced yesterday. I estimate that MEEC has the potential to reap \$100 million from their claims, which after fees would result in about \$1 per share, which is substantially higher than today's \$.30/share market price. MEEC will also likely restore lost business and revenue as a result of their actions.

Legal Proceedings

The initial lawsuit was filed against Vistra Energy Corp. (VST), AEP Generation Resources, NRG Energy (NRG), Talen Energy, Arthur J. Gallagher & Co. (AJG), DTE REF Holdings, CERT Coal Holdings and Chem-Mod. NRG, Talen and Vistra filed petitions

seeking to invalidate MEEC's patent claims. Just a few months later, Vistra settled and agreed to pay an annual licensing fee to MEEC (see above link). I think this is the first domino to fall to fall, setting up a chain reaction.

The company is seeking retroactivity on royalty fees for cases that go through litigation. Companies that settle will not be subject to retroactivity but will be required to pay an annual licensing fee for the technology and have the option of retaining MEEC as a supplier and/or consultant. Companies will also have the option to cease and desist but will need to compensate MEEC for their past use of their technology. I believe that each annual contract is worth one million dollars based on an utility company license announced last year.



Legislation And Cost Savings

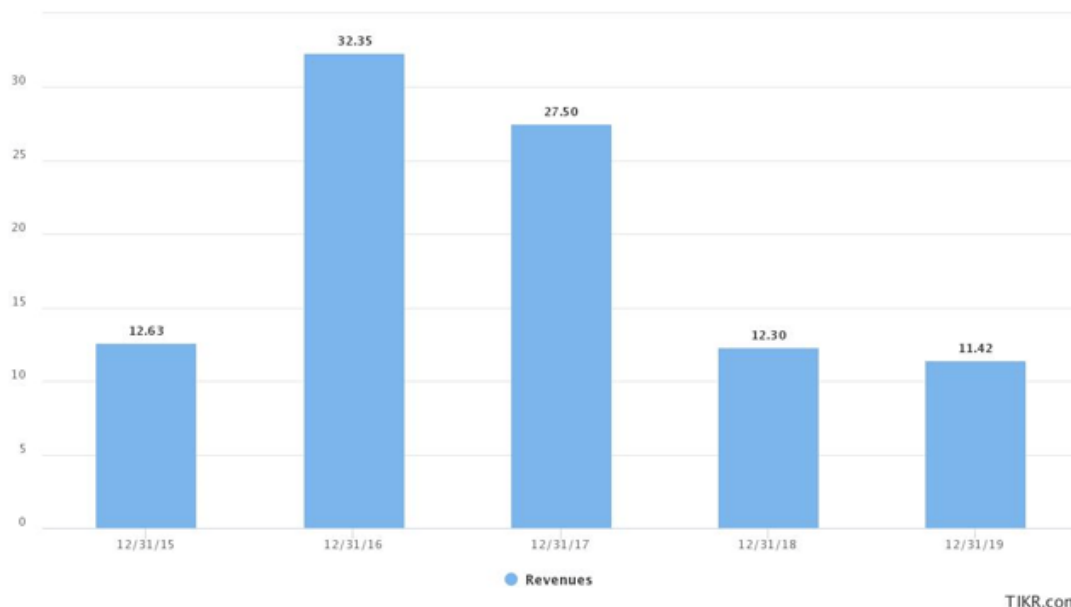
The EPA's Mercury and Air Toxic Standards ("MATS") requires that coal and oil EGUs in the U.S. remove 90% of mercury from emissions. Canada enacted the UNECE Protocol on Heavy Metals in June 1998 which requires a 91% standard since 2017. The Industrial Emissions Directive ("IED") is similar legislation dictating emission control in Europe and was placed in effect last month.

The legal requirements point the way to MEEC's efficient and cost saving solution when competing against scrubbers which require infrastructure costs of hundreds of millions of dollars and other sorbents which cost from \$2 million to \$10 million annually. MEEC's SEA is half the price of other sorbents according to the company's investor presentation. I believe that the cost savings comes from having to run coal through the SEA process just once as opposed to several times for other sorbents in order to reach required purification goals.

Financials

There are about 78 million shares and the market cap is \$26 million. Revenues have been steadily declining due to the decline in coal energy production and low natural gas and renewable prices.

Midwest Energy Emissions Corp. (MEEC)



Source: TIKR.com

MEEC restructured its debt to its largest creditor, AC Midwest Energy in early 2019, eliminating principal payment requirements and extending the maturity date until 2022 in exchange for a portion of the proceeds from the patent infringement action. But the company is losing money and in October of 2019 sold \$2.6 million in convertible notes that mature in 2024.

For the first quarter of 2020, the company had a net loss of \$1.8 million and op. ex. of \$1.2 million. MEEC reported \$461,000 in cash as of March 31, 2020. It will need to do another capital raise.

Skin In The Game

Insiders own 19% of the shares. Institutions own 15% which is impressive as this is an OTC stock which rarely sees institutional investment. The law firm is working on a contingent basis and the largest creditor has waived interest payments in lieu of a piece of the patent infringement action.

Risks

The EPA issued its final rule on MATS in April and is certain to be legally challenged by the coal industry. Any changes to MATS could have a negative impact on MEEC.

Only 23% of electricity production in the U.S. in 2019 was coal generated according to the US Energy Information Administration. The use of coal is forecast to further decline as utilities are shifting away from coal and into renewables.

The company is not profitable and will continue to dilute earnings and gains from the patent infringement actions by capital raises until it is able to successfully establish an increase in licensing and operations.

DisruptiveDave

Well MEEC investors know who Not to vote for in November...

07 Aug 2020, 04:40 PM

Yuppp

Great revenue plan. Don't worry about selling your product, just file lawsuits against companies.

07 Aug 2020, 04:26 PM

DisruptiveDave

When they are breaking the law to your detriment Hell Yes!

07 Aug 2020, 04:40 PM

Sergio Heiber

Contributor Premium

Author's reply » Actually they want to sell their product and the lawsuit is off if the company signs off as was the case for the recently announced settlement. MEEC paid for the rights to the technology and they are entitled to be paid by anyone that wants to use the technology.

07 Aug 2020, 06:15 PM

Patrick Irish

Contributor Premium Marketplace

Nice writeup Sergio. I'm long and hoping this settlement is the first of many.

07 Aug 2020, 04:02 PM

Sergio Heiber

Contributor Premium

Author's reply » Thank you Patrick. Glad to have you as a partner.

07 Aug 2020, 04:16 PM

Conclusion

Patent infringement cases can take a long time but it is encouraging that the first litigant settled in almost exactly one year. This settlement helps to establish credence to MEEC's claim and sends a fair warning to the other litigants as well as others whom MEEC is likely to pursue future legal action against. MEEC is burning money right now and needs to build on this recent win in order to build its licensing revenue and not need capital infusions to survive.

Expect more updates on MEEC.

There will likely be more news about **MEEC**. The best way to keep track of this and any other stocks that interest you is to add them to your Seeking Alpha portfolio.

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Disclosure: I am/we are long MEEC. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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Comments (8)

awisecpa

Great article and the reason I scooped up a large quantity of shares after I read of them retaining counsel to pursue this strategy. I either lose a little or win a small pot of treasure. Seems like a good risk/reward in a much needed market. Was delighted to see the recent PR. Btw, the law firm are a bunch of brilliant winners. I don't mind betting on them when they get paid via contingent upside. GLTAL!

07 Aug 2020, 06:39 PM

GreenGrowthGeek

Premium

@awisecpa Solid comment and you reflect my thinking quite well. This tiny market cap company will have its share price more than double easily with even several more companies seeing the handwriting on the wall.

07 Aug 2020, 09:07 PM