World Resources Institute

Sustainable Enterprise Program
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Molten Metal Technology 1996-1997 (B)

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

At the beginning of 1996, the future looked bright for Bill Haney and Molten Metal Technology (MMT). Analysts predicted that revenues during the year would grow from $44 million to $74 million and that 1995's modest $300,000 profit would reach $12 million in 1996, growing to $62 million by 1998. This optimism was based on the assumptions that the catalytic extraction process (CEP) would go into commercial production and that MMT would further penetrate government, chemical, and international markets.[1] The vast majority of MMT's revenue had been generated by grants and royalty fees. Analysts believed that a steady and significant stream of operating revenue was key to the future of MMT and their forecasts. However, technological difficulties at the company's three plants were delaying full commercial operations. The timing of these problems would prove disastrous.

With Peter Knight and Bill Haney securing lucrative financial grants from the Department of Energy (DOE) while also gaining favor with Al Gore, a likely Democratic presidential candidate in 2000, MMT came under the scrutiny of Republican investigators searching for illegal fundraising practices. A Senate campaign finance investigation issued subpoenas for Haney and Knight, charging that they had solicited political contributions from the firm and, in return, secured the critical government contracts that the company so badly needed.[2] Haney now faced two competing demands—continuing to manage MMT and preparing testimony for Senate and House committees on finance reform. The latter responsibility would siphon precious resources from Haney and his staff for nearly a year.

The turning point for MMT came on October 21, 1996. The DOE declined to renew a research contract with the company stating that the cutoff of funds was based on a decision that MMT's technology was so good that it no longer needed government assistance.[3] The DOE decision eliminated $12 million in expected government financing and prompted company officials to refocus their operations on a few key projects.[4] The funding withdrawal proved even more lethal, however, when the *Wall Street Journal* erroneously reported that the DOE had withdrawn the research grants because of doubts about the commercial viability of CEP. As a result, MMT's share price fell 49% in one day to $14.25 in NASDAQ trading as investors believed that the cut in government funds and the suspicions of unscrupulous government dealings signaled trouble for the high-flying company. (See Exhibit 1) But to make matters worse, the sale of $2.6 million worth of MMT stock by company employees and directors in August and September raised many eyebrows as to the real viability of the company. MMT matchmaker John Preston himself sold more than 41,000 shares. In two days, the company lost $372 million of its market value.[5] With the company pouring more than $150 million into its three commercial facilities, it was extremely cash poor and was in the process of working to attract new investors. It could ill afford these events.

As DOE financing was disappearing, so too was EPA Administrator Carol Browner's support for the "combustion policy" of supporting technologies geared more towards recycling. The company's hopes of stealing market share from incineration contracts were disappearing. The company announced a controversial decision to suspend two emerging projects, which some within the investment community considered fundamental to the company's future success: a European venture to dispose of the nonmetal parts of junk cars, and a Japanese venture to dispose of the ash remnants from incinerated municipal waste. MMT attempted to put the news in a positive light. "We are focusing on strong markets where we have a lot of expertise," said spokesperson Sarah Lawson. However, such announcements had little effect on analysts who immediately downgraded their earnings forecasts. Alex Brown revised its 1996 expectations from a net profit of $0.34/share to a loss of $0.18/share.[6]

Financial results for 1996 were disappointing. The $355,000 profit of 1995 turned into a $61 million loss in 1996. (See Exhibit 2) Much of this loss was attributed to continued investments in commercial plant development, with R&D expenses for CEP development and demonstrations jumping from $11 million to $26 million in 1995. The company expected this increase to be only temporary as it continued working toward commercial-scale operation. SG&A expenses also jumped dramatically to $18.7 million from $2.9 million the year before because of "increases in hiring of additional personnel, the expansion of the corporate infrastructure, and lower absorption of SG&A expenses into cost of revenue due to a reduction in cost reimbursement contracts."[7] These costs were also expected to decline in 1997. A final dramatic change from 1995 to 1996 involved an equity loss of $31.6 million in 1996 compared to equity income of $834,000 in 1995 for its investment in M4. To cover these increasing expenses and losses, the company took on large, long-term debts as a way to continue its expansion into commercial operations.

In December 1996, the company brought some good news to investors. It had begun to process low-level, radioactive ion exchange resins at its Tennessee plant on Bear Creek Road. Several modest contracts had brought the plant online, yet it had not come close to reaching its full capacity.[8] Dissatisfied with its progress, Westinghouse SEG decided to pull out of the partnership, and MMT exercised its option to buy the processing plant.[9] This further deepened investor concern. By January 1997, shareholders questioned whether they had been deceived about the true financial vitality of the company and filed a class action lawsuit against MMT alleging insider trading, fraud, and mismanagement. Despite diminishing Wall Street confidence and dwindling funds, MMT pressed on to improve the commercial viability of CEP. It was "do or die" for the company. Deutsche Morgan Grenfell analyst Robert Lache noted, "If they are unsuccessful, then they don't have enough cash to really carry this business another year. If they are successful, then this could be a huge turning point. There is no in-between."[10]

But problems persisted. In March, the limited partnership with Lockheed Martin was dissolved. MMT became sole owner of M4 Environmental at Commerce Park, while Lockheed retained the contract M4 had won at Hanford, Washington for the cleanup of mixed waste. With the breakup, MMT announced that it would retain 75 of 193 employees at M4. One hundred-eighteen jobs would be lost.[11] Now, MMT was the sole owner of both Oak Ridge, Tennessee plants. In August, the Commerce Park plant came on-line, processing mixed radioactive and hazardous waste from Duke Power Company and IES Utilities.[12] Yet, concurrent with this announcement was the company's statement that it had lost $49.3 million in the first six months of 1996.[13] With severe financial problems (cash and short-term assets had declined to $21 million from $129 million at the end of 1996) intensified by the federal investigation, the company was in trouble.

Surprisingly, a cadre of loyal investors remained firm. At the end of the company's annual meeting in July 1997, one shareholder addressed Bill Haney and the board of directors claiming, "Bill, many of us are fathers and grandfathers. I brought my daughter with me today. We bought shares in the company because we believed the environment is threatened and that technology is essential if our children and grandchildren are to have an environment. So Bill, let's not sacrifice the environment for profits." As he finished, the audience broke into applause.[14] To reduce costs and continue to focus on the goal of commercialization, the company announced a restructuring with layoffs of 77 jobs from the R&D facility in Fall River, Massachusetts and the Waltham, Massachusetts headquarters.

In October 1997, the Governmental Affairs Oversight Subcommittee declined to raise the Molten Metal case in its hearings into campaign finance abuses, given that, as one internal government memo put it, "there was no smoking gun."[15] Ending with far less fanfare than it began, the charges of finance abuse were dismissed.[16] In the fallout, however, lethal damage had been inflicted. "We were having trouble," admitted Michele Perry, MMT's director of communications, "but the Republicans provided the coup de grâce."[17] In November, the company announced a further 25% layoff and sought the advice of the investment banking firm, Blackstone Group, to review its options, including the possible sale of some or all of its assets.[18]

On November 17, 1997, Bill Haney resigned. With this announcement, MMT stock closed at $1, down from a high of $40 nearly two years earlier. The company announced that without bond financing or "substantial additional financing, it would not have sufficient funds to continue normal operations after November [1997]."[19] In particular, the company attempted to identify suitable strategic partners to maintain operations for its facility in Oak Ridge, Tennessee. Such financing was unavailable, and on December 3, 1997, driven by suppliers that refused to extend additional credit, MMT filed Chapter 11 in U.S. Bankruptcy Court.[20] In all, the company had spent a total investment of more than $350 million in private dollars and $33 million in government funding.[21]

Notes

1. D. Swindell (1995) *Investment Analysis: Molten Metal Technology, Inc.* (MLTN) May 24 (Baltimore, MD: Alex Brown & Sons Incorporated).
2. M. Kranish (1997) “Mass. firm with ties to Gore got grants: Key figures linked by years at Harvard,” *The Boston Globe,* September 11:A1.
3. L. Johannes (1996) “Molten metal’s shares plummet 49% as agency declines to renew contract,” *Wall Street Journal,* October 22:B10.
4. L. Johannes (1996):B10.
5. T. Goetz (1997) “Molten meltdown,” *The Village Voice,* April 1:42–43.
6. L. Johannes (1996):B10.
7. Molten Metal Technology (1997) *10-K Report* (Waltham, MA).
8. _______ (1997) “Molten Metal begins work on contracts to process resins,” *The Oak Ridger On-line,* July 17.
9. R. Bridgeman (1997) “M4 partnership will end,” *The Oak Ridger On-line,* March 27.
10. S. Bailey and S. Syre (1997) “Sweating it out at Molten Metal,” *The Boston Globe,* August 12:D1.
11. R. Bridgeman (1997) March 27.
12. R. Bridgeman (1997) “Molten Metal Technology has good, bad news,” *The Oak Ridger On-line,* August 15.
13. R. Bridgeman (1997) August 15.
14. Story described by an attendee of the Annual Meeting, July 16, 1997.
15. J. Broder (1998) “Knight fall: How a republican smear campaign against Al Gore undid a promising Boston-area company,” *Boston Magazine,* February: 23–34
16. J. Broder (1998) and T. Oliphant (1997) “The ‘scandal’ that wasn’t,” *The Boston Globe,* November 11:A19.
17. J. Broder (1998).
18. R. Rosenberg (1997) “Troubled Molten Metal to cut 88 jobs in Mass., 29 in Texas,” *The Boston Globe,* November 22:E1.
19. _______ (1997) “Reviewing strategic alternatives for assets and seeking financing,” *Mergers and Acquisitions,* November 17:C1.
20. K. Blanton (1997) “Once high-flyer Molten Metal files for bankruptcy protection,” *The Boston Globe,* December 4:C1.
21. J. Broder (1998).

Exhibit 1: MMT Stock Performance, 1995-1998

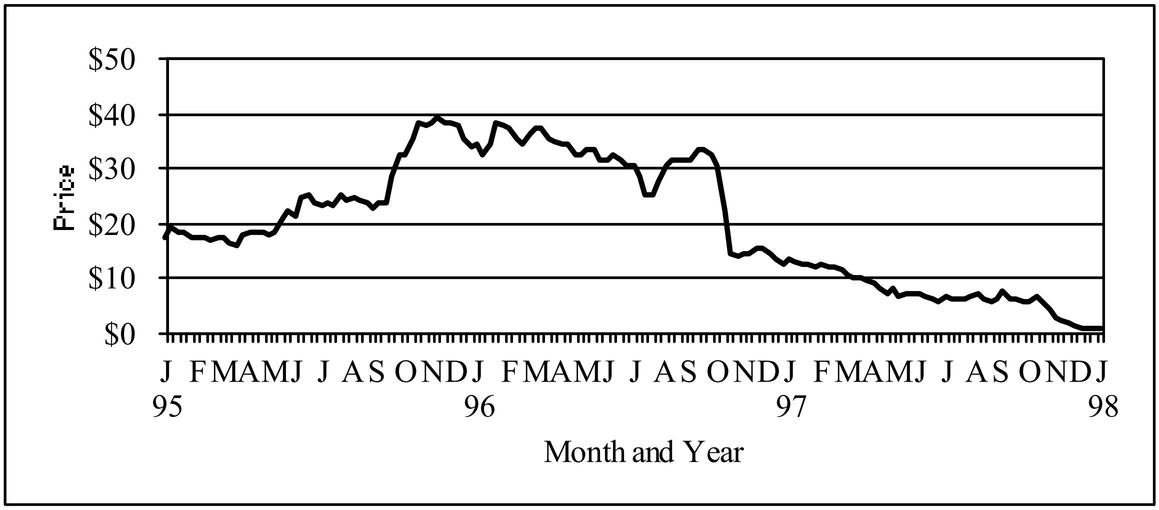

Exhibit 2: MMT Financial Data

(a) Consolidated Statement of Operations (thousands)

	Year Ended December 31						
	1996[1]	**1995**	**1994**[2]	**1993**	**1992**	**1991**	**1990**
Revenue	$63,511	$44,181	$14,398	$4,721	$2,526	$1,960	—
Cost of revenue	50,478	34,900	11,057	2,205	2,172	1,177	—
	13,033	9,281	3,341	2,516	353	782	—
Operating expenses							
Research and development	26,183	10,986	14,417	10,837	4,208	574	1,839
SG & A	18,708	2,877	7,131	5,661	4,132	1,117	76
	44,891	13,736	21,549	16,499	8,341	1,691	1,915
Gain (loss) from operations	(31,858)	(4,584)	(18,207)	(13,982)	(7,987)	(909)	(1,915)
Other income (expense)							
Interest income	8,813	5,600	4,376	1,861	400	323	59
Interest expense	(6,521)	(1,455)	(737)	(160)	(16)	(18)	(10)
Equity income from affiliate	(31,612)	834	—	—	—	—	—
Net gain (loss)	(61,178)	355	(14,569)	(12,281)	(7,603)	(603)	(1,866)
Weighted average common shares outstanding	23,313	24,710	21,904	17,811	12,843	12,652	9,279
Net gain (loss) per share	(2.62)	0.01	(0.67)	(0.69)	(0.59)	(0.05)	(0.20)

Notes:
1. 1995 and 1996 Data source: Molten Metal Technology. 1997. *10-K Report* (Waltham, MA).
2. 1990–1994 Data source: Molten Metal Technology. 1994. *Annual Report* (Waltham, MA).

Exhibit 2: MMT Financial Data, continued

(b) Consolidated Balance Sheet (thousands)

	December 31			
Assets	**1996**[1]	**1995**[2]	**1994**[3]	**1993**
Current assets:				
Cash and cash equivalents	$19,679	$6,644	$12,063	$32,536
Short-term investments	109,389	79,631	88,132	71,887
Accounts receivable	8,897	17,330	2,157	1,717
Prepaid expenses and other current assets	6,301	2,309	1,821	1,218
Total current assets	144,266	105,915	104,174	107,359
Restricted cash and investments	2,593	7,432	9,871	585
Fixed assets, net	103,554	34,679	18,120	13,180
Intangible assets, net	16,363	3,501	2,402	2,086
Other assets	5,969	1,806	972	416
Total Assets	**272,745**	**153,336**	**135,541**	**123,628**
Liabilities and stockholders' equity				
Current liabilities:				
Current portion of long-term debt	1,885	195	480	123
Accounts payable	19,273	9,827	1,656	2,917
Accruals	8,244	2,502	2,135	627
Deferred revenue	6,234	4,083	4,583	—
Total current liabilities	35,636	16,608	8,856	3,669
Long-term debt	164,753	22,883	23,075	2,150
Due to related parties	1,386	1,474	1,474	1,474
Deferred income from affiliates	2,438	2,459	—	—
Equity investment in affiliates	5,021	—	—	—
Stockholders' equity:				
Preferred stock, $.01 par value, 3,000 shares authorized, no shares issued or outstanding	—	—	—	—
Common stock, $.01 par value, 40,000,000 shares authorized; shares issued and outstanding, 22,746,854 at December 31, 1995, 22,165,963 at December 31, 1994 and 21,740,927 at December 31, 1993	236	227	221	217
Additional paid-in capital	163,125	146,641	141,309	138,679
Valuation allowance for short-term investments	(87)	(311)	(2,328)	—
Accumulated deficit (retained earnings)	(97,820)	(36,638)	(36,993)	(22,424)
Deferred compensation	(1,460)	(10)	(72)	(139)
Total stockholders' equity	63,994	109,908	102,135	116,333
Total Liabilities	**272,745**	**153,336**	**135,541**	**123,628**

Notes:
1. 1996 Data Source: "Molten Metal Technology." *S&P Daily News,* June 6, 1997.
2. 1995 Data Source: Molten Metal Technology. 1997. *10-K Report* (Waltham, MA).
3. 1993 - 1994 Data Source: Molten Metal Technology. 1994. *Annual Report* (Waltham, MA).

Exhibit 2: MMT Financial Data, continued

(c) Selected Financial Data (thousands)

	Year Ended December 31						
	1996[1]	**1995**	**1994**[2]	**1993**	**1992**	**1991**	**1990**
Balance Sheet Data							
Cash, cash equivalents and short-term investments	$129,067	$86,276	$100,196	$104,423	$2,234	$4,364	$5,013
Working capital	108,630	89,306	95,318	103,689	(72)	4,229	4,713
Total assets	272,745	153,336	135,541	123,628	11,523	6,141	5,083
Long term liabilities, less current maturities[3]	173,597	26,818	24,549	3,625	3,538	2,174	1,500
Convertible preferred stock	—	—	—	—	72	50	50
Accumulated deficit	(97,820)	(36,638)	(36,993)	(22,424)	(10,142)	(2,539)	(1,936)
Stockholders' equity	63,511	109,908	102,135	116,333	5,264	2,672	3,267
Number of employees	480	283	187	na	na	na	na

Notes:
1. 1995 and 1996 Data source: Molten Metal Technology. 1997. *10-K Report* (Waltham, MA).
2. 1990–1994 Data source: Molten Metal Technology. 1994. *Annual Report* (Waltham, MA).
3. Includes (i) deferred revenue of $700,000 at December 31, 1991 and $1,900,000 at December 31, 1992; (ii) payments due under a technology purchase agreement of $1,500,000 at December 31, 1990, $1,474,586 at December 31, 1991, 1992, 1993, 1994 and 1995 and $1,385,889 at December 12, 1996; (iii) deferred income of $2,459,918 at December 31, 1995 and $2,437,500 at December 31, 1996; and (iv) $5,020,765 of accumulated losses at affiliate in excess of investment at December 31, 1996.