Advanced Emissions Solutions, Inc.
Form 10-Q
August 09, 2016

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
¨TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-54992

Advanced Emissions Solutions, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-5472457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9135 South Ridgeline Boulevard, Suite 200, Highlands Ranch CO,	80129
(Address of principal executive offices)	(Zip Code)

(720) 598-3500
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. (Check one): Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2016
Common stock, par value $0.001 per share	22,037,821

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Part I. – FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share data)	As of June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,221	$ 9,265
Receivables, net	8,950	8,361
Receivables, related parties, net	444	1,918
Restricted cash	4,469	728
Costs in excess of billings on uncompleted contracts	1,254	2,137
Prepaid expenses and other assets	1,781	2,306
Total current assets	19,119	24,715
Restricted cash, long-term	6,700	10,980
Property and equipment, net of accumulated depreciation of $2,528 and $4,557, respectively	1,218	2,040
Investment securities, restricted, long-term	—	336
Cost method investment	2,776	2,776
Equity method investments	3,081	17,232
Other assets	3,714	2,696
Total Assets	$36,608	$ 60,775
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$3,263	$ 6,174
Accrued payroll and related liabilities	3,413	5,800
Current portion of notes payable, related parties	—	1,837
Billings in excess of costs on uncompleted contracts	5,112	9,708
Short-term borrowings, net of discount and deferred loan costs, related party	—	12,676
Legal settlements and accruals	11,470	6,502
Other current liabilities	7,012	7,395
Total current liabilities	30,270	50,092
Long-term portion of notes payable, related party	—	13,512
Legal settlements and accruals, long-term	11,596	13,797
Advance deposit, related party	2,362	2,980
Other long-term liabilities	2,871	5,372
Total Liabilities	47,099	85,753
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock: par value of $.001 and no par value per share, respectively, 50,000,000 shares authorized, none outstanding	—	—
Common stock: par value of $.001 per share, 100,000,000 shares authorized, 22,241,474 and 21,943,872 shares issued, and 21,967,969 and 21,809,164 shares outstanding at June 30, 2016 and December 31, 2015, respectively	22	22
Additional paid-in capital	118,280	116,029
Accumulated deficit	(128,793)	(141,029)
Total stockholders' deficit	(10,491)	(24,978)

Total Liabilities and Stockholders' Deficit	$36,608	$ 60,775

See Notes to the Condensed Consolidated Financial Statements.

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Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data and percentages)	2016	2015	2016	2015
Revenues:				
Equipment sales	$8,213	$14,236	$29,919	$35,351
Chemicals	613	343	1,047	617
Consulting services and other	125	316	320	684
Total revenues	8,951	14,895	31,286	36,652
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	5,437	13,698	22,470	28,749
Chemicals cost of revenue, exclusive of depreciation and amortization	255	41	396	278
Consulting services cost of revenue, exclusive of depreciation and amortization	77	264	212	690
Payroll and benefits	3,956	9,746	7,759	14,657
Rent and occupancy	632	601	1,026	1,232
Legal and professional fees	1,982	4,387	4,965	8,122
General and administrative	1,346	1,503	2,092	3,385
Research and development, net	(345)	1,860	(143)	3,110
Depreciation and amortization	223	573	454	1,104
Total operating expenses	13,563	32,673	39,231	61,327
Operating loss	(4,612)	(17,778)	(7,945)	(24,675)
Other income (expense):				
Earnings from equity method investments	13,754	4,860	19,331	5,174
Royalties, related party	669	2,299	1,859	4,493
Interest income	95	6	118	18
Interest expense	(1,573)	(1,794)	(3,537)	(3,569)
Gain on sale of equity method investment	—	—	2,078	—
Gain on settlement of note payable and licensed technology	151	—	1,019	—
Other	(525)	23	(535)	87
Total other income	12,571	5,394	20,333	6,203
Income (loss) before income tax expense	7,959	(12,384)	12,388	(18,472)
Income tax expense	99	63	152	107
Net income (loss)	$7,860	$(12,447)	$12,236	$(18,579)
Earnings (loss) per common share (Note 1):				
Basic	$0.36	$(0.57)	$0.55	$(0.85)
Diluted	$0.35	$(0.57)	$0.55	$(0.85)
Weighted-average number of common shares outstanding:				
Basic	21,875	21,715	21,895	21,728
Diluted	22,187	21,715	22,204	21,728

See Notes to the Condensed Consolidated Financial Statements.

Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Six Months Ended June 30, 2016	2015
Cash flows from operating activities		
Net income (loss)	$12,236	$(18,579)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	454	1,104
Amortization of debt issuance costs	1,152	50
Impairment of property and equipment and inventory	517	46
Interest costs added to principal balance of notes payable	—	432
Share-based compensation expense	1,543	5,459
Earnings from equity method investments	(19,331)	(5,174)
Gain on sale of equity method investment	(2,078)	—
Gain on settlement of note payable and licensed technology	(1,019)	—
Other non-cash items, net	34	688
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Receivables	(627)	7,625
Related party receivables	1,473	(226)
Prepaid expenses and other assets	806	(460)
Costs incurred on uncompleted contracts	17,201	2,363
Restricted cash	1,089	(709)
Other long-term assets	(2,630)	231
Accounts payable	(2,910)	2,713
Accrued payroll and related liabilities	(1,596)	1,651
Other current liabilities	(101)	1,348
Billings on uncompleted contracts	(20,910)	(9,420)
Advance deposit, related party	(618)	(1,496)
Other long-term liabilities	(1,336)	19
Legal settlements and accruals	2,767	(1,472)
Distributions from equity method investees, return on investment	5,900	19
Net cash used in operating activities	(7,984)	(13,788)

(in thousands)	Six Months Ended June 30, 2016	2015
Cash flows from investing activities		
Maturity of investment securities, restricted	336	—
Increase in restricted cash	(550)	(1,200)
Acquisition of property and equipment, net	(111)	(380)
Advance on note receivable	—	(500)
Acquisition of business	—	(2,124)
Purchase of and contributions to equity method investees	(223)	(230)
Proceeds from sale of equity method investment	1,773	—
Distributions from equity method investees in excess of cumulative earnings	14,875	4,730
Net cash provided by investing activities	16,100	296
Cash flows from financing activities		
Repayments on short-term borrowings, related party	(13,250)	—
Repayments on notes payable, related party	(1,246)	(1,014)
Short-term borrowing loan costs	(579)	—
Repurchase of shares to satisfy tax withholdings	(85)	(262)
Net cash used in financing activities	(15,160)	(1,276)
Decrease in Cash and Cash Equivalents	(7,044)	(14,768)
Cash and Cash Equivalents, beginning of period	9,265	25,181
Cash and Cash Equivalents, end of period	$2,221	$10,413
Supplemental disclosures of cash information:		
Cash paid for interest	$1,436	$2,993
Cash paid (refunded) for income taxes	$(72)	$146
Supplemental disclosure of non-cash investing and financing activities:		
Restricted stock award reclassification (liability to equity)	$899	$—
Settlement of RCM6 note payable	$13,234	$—
Non-cash reduction of equity method investment	$11,156	$—

See Notes to the Condensed Consolidated Financial Statements.

Advanced Emissions Solutions, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

Nature of Operations

Advanced Emissions Solutions, Inc. ("ADES" or the "Company"), a Delaware corporation with its principal office located in Highlands Ranch, Colorado, is principally engaged in providing environmental and emissions control equipment, technologies and specialty chemicals to the coal-burning electric power generation industry. Although the Company has historically operated at a net loss, the Company generates substantial earnings and tax credits under Section 45 of the Internal Revenue Code ("IRC") from its equity investments in certain entities and royalty payment streams related to technologies that are licensed to Clean Coal Solutions, LLC, a Colorado limited liability company ("CCS"). Such technologies allow CCS to provide their customers with various solutions to enhance combustion and reduced emissions of nitrogen oxide ("NO_x") and mercury from coal burned to generate electrical power. The Company’s sales occur principally throughout the United States. See Note 12 for additional information regarding the Company's operating segments.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of ADES are unaudited and have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and with Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The unaudited Condensed Consolidated Financial Statements of ADES in this quarterly report are presented on a consolidated basis comprising ADES and its direct and indirect, wholly-owned subsidiaries: ADA-ES, Inc. ("ADA"), a Colorado corporation; BCSI, LLC ("BCSI"), a Delaware limited liability company; Advanced Clean Energy Solutions, LLC ("ACES"), a Delaware limited liability company; ADEquity, LLC ("ADEquity"), a Delaware limited liability company; ADA Environmental Solutions, LLC ("ADA LLC"), a Colorado limited liability company; ADA Intellectual Property, LLC ("ADA IP"), a Colorado limited liability company; ADA-RCM6, LLC ("ADA-RCM6"), a Colorado limited liability company; ADA Analytics, LLC, a Delaware limited liability company and ADA Analytics Israel Ltd. (collectively with ADA Analytics, LLC, "ADA Analytics"), an Israel limited liability company. ADA LLC and ADA IP had no operations for the three and six months ended June 30, 2016 and 2015, nor during the year ended December 31, 2015.

Included within the unaudited Condensed Consolidated Financial Statements of ADES in this quarterly report are its investments, CCS and Clean Coal Solutions Services, LLC ("CCSS"), which are accounted for using the equity method of accounting. As discussed in Note 4, the Company sold its equity investment in RMC6 in March 2016, which was also accounted for using the equity method prior to the sale.

During 2015, the Company elected to cease the operations of ADA Analytics. The Company anticipates that ADA Analytics will be legally dissolved during 2016. In addition, the Company terminated its manufacturing operations, conducted under BCSI, effective as of the end of 2015. The Company anticipates that BCSI will eventually be legally dissolved upon the winding down of its remaining manufacturing operations, commitments and obligations. The Company will continue to serve the Dry Sorbent Injection ("DSI") market, which BCSI previously served, through ADA.

Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of and for the three and six months ended June 30, 2016 and 2015.

In the opinion of management, these Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. These Condensed Consolidated Financial Statements of ADES should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Significant accounting policies disclosed therein have not changed.

Liquidity

During the six months ended June 30, 2016, the Company's cash and cash equivalents balance continued to decline, primarily due to debt service payments on our short-term loan, discussed in Note 8 (the “Credit Agreement”) and notes payable, fees incurred to extend the maturity of our Credit Agreement, the payoff of our Credit Agreement on June 30, 2016 and delivering on our existing contracts and customer commitments. In addition, the Company continued to incur professional fees related to the re-audit and restatement of prior financial statements (the "Restatement") and to become current with its regulatory filings.

The Company's working capital increased by $14.2 million during the six months ended June 30, 2016, primarily due to distributions from CCS and CCSS, reduction in operated retained RC facilities, proceeds received from the sale of our interest in RCM6 and the elimination of the related note payable, as well as the favorable settlement of our note payable to the former-sole owner of companies from which BCSI acquired its assets (the "DSI Business Owner"). Working capital was also positively affected by net income for the three and six months ended June 30, 2016, which was driven in part by significantly improved performance from our Refined Coal ("RC") segment, specifically cash distributions. The Company expects that the pressure on our working capital will continue as we continue to restructure our operations and seek to expand our revenue generating activities.

The Company's ability to generate sufficient cash flow required to meet ongoing operational needs and to meet obligations depends upon several factors, including executing on the Company's contracts and initiatives, receiving royalty payments from CCS and distributions from CCS and CCSS, and our ability to maintain and grow our share of the market and increase operational efficiencies for emissions control equipment, chemicals and services. Increased distributions from CCS will likely be dependent upon the securing of additional tax equity investors for those CCS facilities that are currently not operating, or operating as retained RC facilities. If we are unable to generate sufficient cash flow, we may be unable to meet our operational needs. We are working to renegotiate the terms of the existing revolving credit facility to enable the Company to have borrowing capacity to provide short-term liquidity for operating purposes. If we are unable to obtain such financing, we will continue to restructure our operations to adequately manage our cash position.

Earnings (Loss) Per Share

The Company computes earnings (loss) per share in accordance with FASB ASC 260-10. Under this guidance, unvested restricted stock awards ("RSA's") that contain non-forfeitable rights to dividends or dividend equivalents are deemed to be participating securities and, therefore, are included in computing basic earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings (losses). The Company did not declare any cash dividends during the three-month or six-month periods ended June 30, 2016 or 2015.

Under the two-class method, net income (loss) for the period is allocated between common stockholders and the holders of the participating securities, in this case, the weighted-average number of unvested restricted stock awards outstanding during the period. The allocated, undistributed income (loss) for the period is then divided by the weighted-average number of common shares and participating securities outstanding during the period to arrive at basic earnings (loss) per common share or participating security for the period, respectively. Because the Company did not declare any dividends during the periods presented, and because the unvested RSA's possess substantially the same rights to undistributed earnings as common shares outstanding, there is no difference between the calculated basic earnings (loss) per share for common shares and participating securities. Accordingly, and pursuant to U.S. GAAP, the Company has elected not to separately present basic or diluted earnings (loss) per share attributable to participating securities on its Condensed Consolidated Statements of Operations.

Diluted earnings (loss) per share takes into consideration shares of common stock and unvested RSA's outstanding (computed under basic earnings (loss) per share) and potentially dilutive shares of common stock. Potentially dilutive shares consist of vested, in-the-money outstanding options, Stock Appreciation Rights ("SAR's") and contingent Performance Share Units ("PSU's") (collectively "Potential dilutive shares"). When there is a loss from continuing operations, all potentially dilutive shares become anti-dilutive and are thus excluded from the calculation of diluted loss per share.

Each PSU represents a contingent right to receive shares of the Company’s common stock, that may range from zero to two times the number of PSU's granted on the award date, should the Company meet certain performance measures over the requisite performance period. The number of potentially dilutive shares related to PSU's is based on the number of shares, if any, that would be issuable at the end of the respective reporting period, assuming that the end of the reporting period was the end of the contingency period applicable to such PSU's.

The following table sets forth the calculations of basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2016	2015	2016	2015
Net income (loss)	$7,860	$(12,447)	$12,236	$(18,579)
Less: Undistributed income (loss) allocated to participating securities	83	(130)	109	(215)
Income (loss) attributable to common stockholders	$7,777	$(12,317)	$12,127	$(18,364)
Basic weighted-average common shares outstanding	21,875	21,715	21,895	21,728
Add: dilutive effect of equity instruments	312	—	309	—
Diluted weighted average shares outstanding	22,187	21,715	22,204	21,728
Earnings (loss) per share - basic	$0.36	$(0.57)	$0.55	$(0.85)
Earnings (loss) per share - diluted	$0.35	$(0.57)	$0.55	$(0.85)

The table below shows the number of shares that were excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive to the calculation:

	Three Months Ended June 30,		Six Months Ended June 30,	
(share data in thousands)	2016	2015	2016	2015
Stock options	—	18	—	24
Restricted stock awards	—	161	—	181
Performance share units	—	200	—	195
Stock appreciation rights	—	2	—	6
Total shares excluded from diluted shares outstanding	—	381	—	406

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. There have been no changes in the Company's critical accounting estimates from those that were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Actual results could differ from these estimates.

Reclassifications

Certain balances have been reclassified from the prior year to conform to the current year presentation.

New Accounting Guidance

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting (Topic 718), which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This ASU is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company adopted this standard effective as of January 1, 2016. There was no material impact to the Company's financial statements or disclosures from the adoption of this standard.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which (1) clarifies the principle for determining whether a good or service is "separately identifiable" from other promises in the contract and, therefore, should be accounted for separately; (2)

clarifies that entities are not required to identify promised goods or services that are immaterial in the context of the contract; and (3) allows entities to elect to account for shipping and handling activities as a fulfillment cost rather than as an additional promised service. The new standard also provides guidance with respect to the classification of licensed intellectual property as either "functional" or "symbolic," which determines when revenues from licensed intellectual property are recognized. This ASU is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In May 2016, the FASB issued ASU No. 2016-11, "Revenue Recognition and Derivatives and Hedging: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 Emerging Issues Task Force Meeting ("EITF")," which rescinds SEC paragraphs pursuant to SEC staff announcements. These rescissions include changes to topics pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. This ASU is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies certain core recognition principles including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition and disclosures no longer required if the full retrospective transition method is adopted. This ASU is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

Other than as disclosed above or in the 2015 Form 10-K, there are no other new accounting standards that would have a material effect on the Company’s financial statements and disclosures that have been issued but not yet adopted by the Company as of June 30, 2016, and through the filing date of this report.

Note 2 - Restructuring

The Company recorded restructuring charges during the three and six months ended June 30, 2016 and 2015 in connection with a reduction in force, the departure of certain executive officers and management's further alignment of the business with strategic objectives. These charges related to severance arrangements with departing employees and executives, as well as non-cash charges related to the acceleration of vesting of certain stock awards. The Company expects to incur additional charges during the remainder of 2016 associated with management's further alignment of the business with strategic objectives, which will impact the Emissions Control and All Other and Corporate business segments.

A summary of the net pretax charges, incurred by segment, for each period is as follows:

		Pretax Charge			
(in thousands, except employee data)	Approximate Number of Employees	Refined Coal	Emissions Control	All Other and Corporate	Total
Three Months Ended June 30, 2016					
Restructuring charges	19	$ —	$ 468	$ 316	$ 784
Changes in estimates		—	—	—	—
Total pretax charge, net of reversals		$ —	$ 468	$ 316	$ 784
Six Months Ended June 30, 2016					
Restructuring charges	22	$ —	$ 468	$ 599	$ 1,067
Changes in estimates		—	—	—	—
Total pretax charge, net of reversals		$ —	$ 468	$ 599	$ 1,067
Three Months Ended June 30, 2015					
Restructuring charges	41	$ —	$ 1,801	$ 3,764	$ 5,565
Changes in estimates		—	(2)	—	(2)
Total pretax charge, net of reversals		$ —	$ 1,799	$ 3,764	$ 5,563
Six Months Ended June 30, 2015					
Restructuring charges	45	$ —	$ 1,801	$ 4,242	$ 6,043
Changes in estimates		—	(12)	—	(12)
Total pretax charge, net of reversals		$ —	$ 1,789	$ 4,242	$ 6,031

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The following table summarizes the Company’s change in restructuring accruals for the six months ended June 30, 2016:

(in thousands)	Employee Severance	Facility Closures
Remaining accrual as of December 31, 2015	$ 2,581	$ 777
Expense provision (1)	1,067	—
Cash payments and other (1)	(1,933)	(320)
Change in estimates	—	(210)
Remaining accrual as of June 30, 2016	$ 1,715	$ 247

(1) Included within the Expense provision and Cash payments and other line items in the above table is equity based compensation of $0.2 million for the six months ended June 30, 2016, resulting from the accelerated vesting of modified equity-based compensation awards for certain terminated employees.

Restructuring accruals are included within the Accrued payroll and related liabilities line item in the Condensed Consolidated Balance Sheets. Restructuring expenses are included within the Payroll and benefits line item in the Condensed Consolidated Statements of Operations.

Note 3 - Acquisition

2015 Acquisition

In November 2014, the Company entered into an agreement with InSyst Ltd. and ClearView Monitoring Solutions Ltd. (collectively "ClearView"), both Israel based companies specializing in data analytics, to allow the Company the exclusive option to purchase certain assets of ClearView. The Company paid $0.2 million related to this option, which was included within the Prepaid expenses and other assets line item within the Condensed Consolidated Balance Sheets as of December 31, 2014. In January 2015, the Company notified ClearView that it had elected to exercise its exclusive option to purchase certain assets of ClearView.

In March 2015, the Company acquired certain assets of ClearView for total cash payments of $2.4 million, which is inclusive of VAT tax of $0.4 million. The acquisition was accounted for under the acquisition method of accounting, which requires the total purchase consideration to be allocated to the assets acquired and liabilities assumed based on estimates of fair value. Operating results related to the acquired assets were consolidated into the Company’s results of operations beginning March 6, 2015.

A summary of the purchase consideration and allocation of the purchase consideration is as follows:

(in thousands)	
Purchase consideration:	
Cash paid	$2,360
Fair value of liabilities assumed:	
Accrued liabilities	10
Contingent consideration	451
Total fair value of liabilities assumed	461
Total purchase consideration	$2,821
Allocation of purchase consideration	
Receivables	$360
Property and equipment and other	82
Intangibles - in process research and development	2,379
Total	$2,821

The transaction called for a series of contingent payments based upon the achievement of sales and sales targets. These contingent payments are classified as purchase consideration. As part of the purchase price, the Company recorded a $0.5

million liability for the contingent consideration based upon the net present value of the Company's estimate of the future payments.

During August 2015, as part of a broader strategic restructuring of the Company's business to simplify its operating structure in a manner that creates increased customer focus, better supports sales and product delivery and also aligns the Company’s cost structure as the emissions control market shifts towards compliance solutions for the Federal Mercury and Air Toxics Standards ("MATS"), the Company’s management approved an action to wind down operations of ADA Analytics. As a result of these actions, the Company fully impaired the carrying value of the assets and reversed the liability for the contingent consideration, thereby recognizing net impairment expense in the amount of $1.9 million during the third quarter of 2015.

Note 4 - Equity Method Investments

Clean Coal Solutions, LLC

The Company's ownership interest in CCS was 42.5% as of June 30, 2016 and December 31, 2015. CCS supplies technology equipment and technical services to cyclone-fired, pulverized coal and other boiler users, but CCS's primary purpose is to put into operation facilities that produce RC that qualify for tax credits available under Section 45 of the IRC ("Section 45 tax credits"). CCS has been determined to be a variable interest entity ("VIE"); however, the Company does not have the power to direct the activities that most significantly impact the VIE’s economic performance and has therefore accounted for the investment under the equity method of accounting. The Company determined the partners of CCS with voting rights had identical voting interests, equity control interests and board control interests, and therefore, concluded that the power to direct the activities that most significantly impact the VIE’s economic performance was shared.

The following tables summarize the results of operations of CCS for the three and six months ended June 30, 2016 and 2015, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2016	2015	2016	2015
Gross profit	$21,154	$24,905	$47,680	$55,834
Operating, selling, general and administrative expenses	4,956	7,147	10,468	12,503
Income from operations	16,198	17,758	37,212	43,331
Other expenses	(3,021)	470	(4,036)	329
Class B preferred return	(1,043)	(1,632)	(2,186)	(3,362)
Loss attributable to noncontrolling interest	3,951	1,782	5,907	3,113
Net income available to Class A members	$16,085	$18,378	$36,897	$43,411
ADES equity earnings	$12,832	$4,630	$18,275	$4,730

The difference between the Company's proportionate share of CCS's net income and the Company's earnings from its CCS equity method investment as reported on its Condensed Consolidated Statements of Operations relates to the Company receiving distributions in excess of the carrying value of the investment, and therefore recognizing such excess distributions as equity method earnings in the period the distributions occur, as discussed below.

As shown in the tables below, the Company’s carrying value in CCS had been reduced to zero throughout 2015, as cumulative cash distributions received from CCS had exceeded the Company's pro-rata share of cumulative earnings in CCS. The carrying value of the Company's investment in CCS shall remain zero as long as the cumulative amount of distributions received from CCS continues to exceed the Company's cumulative pro-rata share of CCS's income. For quarterly periods during which the ending balance of the Company's investment in CCS is zero, the Company only recognizes equity income from CCS to the extent that cash distributions are received from CCS during the period. For quarterly periods during which the ending balance of the Company's investment is greater than zero (e.g., when the cumulative earnings in CCS exceeds cumulative cash distributions received), the Company recognizes its pro-rata share of CCS's earnings (losses) for the period, less any amount necessary to recover the cumulative earnings short-fall balance as of the end of the immediately preceding quarter. During the three and six months ended June 30, 2016, the Company's cumulative amount of distributions received from CCS exceeded the Company's cumulative pro-rata share of CCS's income. As such, the Company recognized equity earnings from CCS in the amount of $12.8

million and $18.3 million, respectively. As of June 30, 2016, the Company's carrying value in CCS has been reduced to zero, as cumulative cash distributions received from CCS have exceeded the Company's pro-rata share of cumulative earnings in CCS. If CCS subsequently reports net income, the Company will not record its pro-rata share of such net income until the cumulative share of pro-rata income equals or exceeds the amount of its cumulative income recognized due to the receipt of cash distributions. Until such time, the Company will only report income from CCS to the extent of cash distributions received during the period.

Thus, the amount of equity income or loss reported on the Company's income statement may differ from a mathematical calculation of net income or loss attributable to the equity interest based upon the factor of the equity interest and the net income or loss attributable to equity owners as shown on CCS’s income statement. Additionally, for periods during which the carrying value of the Company's investment in CCS is greater than zero, distributions from CCS are reported on our Condensed Consolidated Statements of Cash Flows as "Distributions from equity method investees, return on investment" within Operating cash flows. For periods during which the carrying value of the Company's investment in CCS is zero, such cash distributions are reported on our Condensed Consolidated Statements of Cash Flows as "Distributions from equity method investees in excess of investment basis" within Investing cash flows.

The following table presents the Company's investment balance, equity earnings and cash distributions in excess of the investment balance, on a quarterly basis, for the three and six months ended June 30, 2016 (in thousands):

Description	Date(s)	Investment balance	ADES equity earnings (loss)	Cash distributions	Memorandum Account: Cash distributions and equity loss in (excess) of investment balance
Beginning balance	12/31/15	$ —	$—	$ —	$ (3,263)
ADES proportionate share of income from CCS (1)	First Quarter	8,706	8,706	—	—
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	First Quarter	(3,263)	(3,263)	—	3,263
Cash distributions from CCS	First Quarter	(3,400)	—	3,400	—
Total investment balance, equity earnings (loss) and cash distributions	3/31/2016	2,043	$5,443	$ 3,400	—
ADES proportionate share of income from CCS (1)	Second Quarter	6,758	$6,758	$ —	—
Cash distributions from CCS	Second Quarter	(14,875)	—	14,875	—
Adjustment for current year cash distributions in excess of investment balance	Second Quarter	6,074	6,074	—	(6,074)
Total investment balance, equity earnings (loss) and cash distributions	6/30/2016	$ —	$12,832	$ 14,875	$ (6,074)

The following table presents the Company's investment balance, equity earnings and cash distributions in excess of the investment balance, on a quarterly basis, for the three and six months ended June 30, 2015 (in thousands):

Description	Date(s)	Investment balance	ADES equity earnings (loss)	Cash distributions	Memorandum Account: Cash distributions and equity loss in (excess) of investment balance
Beginning balance	12/31/2014	$ —	$ —	$ —	$ (29,877)
ADES proportionate share of income from CCS (1)	First Quarter	9,827	9,827	—	—
Recovery of cumulative distributions and equity losses in excess of investment balance	First Quarter	(9,827)	(9,827)	—	9,827
Cash distributions from CCS	First Quarter	(100)	—	100	—
Adjustment for current year cash distributions in excess of investment balance	First Quarter	100	100	—	(100)
Total investment balance, equity earnings (loss) and cash distributions	3/31/2015	—	$ 100	$ 100	(20,150)
ADES proportionate share of income from CCS (1)	Second Quarter	7,825	$ 7,825	$ —	—
Recovery of cumulative distributions and equity losses in excess of investment balance	Second Quarter	(7,825)	(7,825)	—	7,825
Cash distributions from CCS	Second Quarter	(4,630)	—	4,630	—
Adjustment for current year cash distributions in excess of investment balance	Second Quarter	4,630	4,630	—	(4,630)
Total investment balance, equity earnings (loss) and cash distributions	6/30/2015	$ —	$ 4,630	$ 4,630	$ (16,955)

(1) The amounts of the Company's 42.5% proportionate share of net income as shown in the table above differ from mathematical calculations of the Company’s 42.5% equity interest in CCS multiplied by the amounts of Net Income available to Class A members as shown in the table above of CCS results of operations due to adjustments related to the Redeemable Class B preferred return and the elimination of CCS earnings attributable to RCM6, of which the Company owned 24.95% during the periods presented through March 6, 2016. As noted below, the Company sold its interest in RCM6 on March 3, 2016.

Clean Coal Solutions Services, LLC

On January 20, 2010, the Company, together with NexGen Refined Coal, Inc. ("NexGen"), formed CCSS, a Colorado limited liability company, for the purpose of operating the RC facilities leased or sold to third parties. The Company has determined that CCSS is not a VIE and has evaluated the consolidation analysis under the Voting Interest Model. The Company has a 50% voting and economic interest in CCSS, which is equivalent to the voting and economic interest of NexGen. Therefore, as the Company does not own greater than 50% of the outstanding voting shares, either directly or indirectly, it has accounted for the investment under the equity method of accounting. The Company’s investment in CCSS as of June 30, 2016 and December 31, 2015 was $3.1 million and $4.0 million, respectively.

The following table summarizes the results of operations of CCSS:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2016	2015	2016	2015
Gross loss	$ (14,473)	$ (9,732)	$ (27,098)	$ (19,895)
Operating, selling, general and administrative expenses	31,128	41,008	67,390	78,954
Loss from operations	(45,601)	(50,740)	(94,488)	(98,849)

Other expenses	(20)	(70)	(40)	(75)
Loss attributable to noncontrolling interest	47,465	53,110	97,754	103,268
Net income	$1,844	$2,300	$3,226	$4,344
ADES equity earnings	$922	$1,150	$1,613	$2,172

Included within the Consolidated Statement of Operations of CCSS for the three and six months ended June 30, 2016 and 2015, respectively, were losses related to VIE's of CCSS. These losses do not impact the Company's equity earnings from CCSS as 100% of those losses are removed from the net income of CCSS as they are losses attributable to a noncontrolling interest.

RCM6, LLC

On February 10, 2014, the Company purchased a 24.95% membership interest in RCM6, which owned a single RC facility that produced RC that qualified for Section 45 tax credits, from CCS through a combination of an up-front payment and note payable to CCS. Due to the payment terms of the note purchase agreement, the note payable was periodically negatively amortizing. The balance of the note payable as of December 31, 2015 was $14.2 million. In addition to the up-front and subsequent note payments, the Company was also subject to quarterly capital calls and variable payments based upon differences in originally forecasted RC production as of the purchase date and actual quarterly production. The following table presents the capital calls and variable payments made by the Company related to its investment in RCM6 during the three and six mon