INFOBLOX INC
Form 4
September 17, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Parekh Sohail M.

(Last) (First) (Middle)

C/O INFOBLOX INC., 3111 CORONADO DRIVE

(Street)

SANTA CLARA, CA 95054

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INFOBLOX INC [BLOX]

3. Date of Earliest Transaction (Month/Day/Year)
09/16/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Exec VP, Engineering

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/16/2014		S (1)		1,432	D	$ 14.21	141,068	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Parekh Sohail M. C/O INFOBLOX INC. 3111 CORONADO DRIVE SANTA CLARA, CA 95054			Exec VP, Engineering	

Signatures

Sohail M. Parekh, by Stephen Yu, his Attorney-in-Fact	09/17/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents the automatic sale of stock to satisfy the reporting person's tax withholding obligations.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. gn:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">
5,130

Cash distributions from CCS

Second Quarter

(9,733
)

—

9,733

—

Recognition of earnings for cash distributions in excess of investment balance

Second Quarter

9,733

9,733

—

(9,733
)
Total investment balance, equity earnings (loss) and cash distributions

6/30/2014

—

9,733

9,733

(19,453
)
ADES proportionate share of income from CCS (1)

Third Quarter

7,805

7,805

—

—

Recovery of cumulative distributions and equity losses in excess of investment balance

Third Quarter

(7,805
)

(7,805
)

—

7,805

Cash distributions from CCS

Third Quarter

(6,226
)

—

6,226

—

Recognition of earnings for cash distributions in excess of investment balance

Third Quarter

6,226

6,226

—

(6,226
)
Total investment balance, equity earnings (loss) and cash distributions

9/30/2014

$
—

$
6,226

$
6,226

$
(17,874
)
(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 during the years ended December 31, 2015 and 2014.
Clean Coal Solutions Services, LLC
On January 20, 2010, the Company, together with NexGen Refined Coal, Inc. ("NexGen"), formed Clean Coal Solutions Services, LLC ("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 have greater than 50% of the outstanding voting shares, either directly or indirectly, it has accounted for the investment under the equity method of accounting.

14

The following table summarizes the results of operations of CCSS:

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Gross loss	$(11,616)	$(5,247)	$(31,511)	$(14,064)
Operating expenses	41,322	25,082	120,269	68,463
Loss from operations	(52,938)	(30,329)	(151,780)	(82,527)
Other expenses	(7)	(34)	(86)	(57)
Loss attributable to noncontrolling interest	55,661	32,147	158,926	87,642
Net income	$2,716	$1,784	$7,060	$5,058
ADES equity earnings	$1,358	$892	$3,530	$2,529

Included within the Consolidated Statement of Operations of CCSS for the three and nine months ended September 30, 2015 and 2014, 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. The Company’s investment in CCSS as of September 30, 2015 and December 31, 2014 was $5.2 million and $4.1 million, respectively.

RCM6, LLC

On February 10, 2014, the Company purchased a 24.95% membership interest in RCM6, LLC ("RCM6"), which owns a single RC facility that produces RC that qualifies for Section 45 tax credits, from CCS through an up-front payment of $2.4 million and an initial note payable to CCS of $13.3 million. Due to the payment terms of the note purchase agreement, the note payable is periodically negatively amortizing and the note payable balance as of September 30, 2015 and December 31, 2014 were $14.4 million and $14.2 million, respectively. In addition to the up front and subsequent note payments, the Company is 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 contains the capital calls and variable payments made by the Company related to its investment in RCM6 during the three and nine months ended September 30, 2015 and 2014, respectively:

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Capital calls and variable payments	$850	$1,353	$1,080	$2,736

RCM6 has been determined to be a VIE, however, during the periods presented, the Company did not have the power to direct the activities that most significantly impacted the variable interest entity’s economic performance and has therefore accounted for the investment under the equity method of accounting.

As of September 30, 2015 and December 31, 2014, the Company’s ownership in RCM6 was 24.95%. The Company’s investment in RCM6 as of September 30, 2015 and December 31, 2014 was $13.4 million and $15.4 million, respectively. On March 3, 2016, the Company sold its 24.95% membership interest in RCM6 as further described in Note 12.

The following table summarizes the assets, liabilities and results of operations of RCM6:

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Gross loss	$(2,896)	$(3,326)	$(4,876)	$(5,298)
Operating expenses	590	581	1,567	1,447
Loss from operations	(3,486)	(3,907)	(6,443)	(6,745)

Other expenses	(220)	(265)	(382)	(434)
Net loss	$(3,706)	$(4,172)	$(6,825)	$(7,179)
ADES equity losses	$(1,399)	$(1,515)	$(3,127)	$(3,057)

15

The purchase of RCM6 resulted in the Company recording a basis difference related to property, plant and equipment and identifiable intangible assets. The difference between the Company's proportionate share of RCM6' net loss and the Company's equity losses noted above is due to depreciation and amortization related to the basis difference allocated to property, plant and equipment and identifiable intangible assets upon the purchase of RCM6. During the three and nine months ended September 30, 2015 and 2014, the Company adjusted its equity method earnings in RCM6 by $0.5 million and $0.5 million and $1.4 million and $1.3 million, respectively, due to this basis difference. On March 3, 2016, the Company sold its entire ownership interest in RCM6. The Company received a cash payment of $1.8 million related to the sale and has no future obligations related to the previously recorded note payable.
The following table details the components of the Company's respective equity method investments included within the Earnings (loss) from equity method investments line item on the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Earnings from CCS	$—	$6,226	$4,730	$22,547
Earnings from CCSS	1,358	892	3,530	2,529
Loss from RCM6	(1,399)	(1,515)	(3,127)	(3,057)
Earnings from equity method investments	$(41)	$5,603	$5,133	$22,019

The following table details the components of the cash distributions from the Company's respective equity method investments included within the Condensed Consolidated Statements of Cash Flows. Distributions from equity method investees are reported on our Condensed Consolidated Statements of Cash Flows as “return on investment” within Operating cash flows until such time as the carrying value in an equity method investee company is reduced to zero; thereafter, such distributions are reported as “distributions in excess of cumulative earnings” within Investing cash flows.

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Distributions from equity method investees, return on investment		
CCSS	$2,519	$1,259
	$2,519	$1,259
Distributions from equity method investees in excess of investment basis		
CCS	$4,730	$22,547
	$4,730	$22,547

Note 5 - Investments

The Company had investment securities related to certificates of deposit in the amount of $0.3 million as of September 30, 2015 and December 31, 2014. No unrealized gains or losses were recorded as of September 30, 2015 and December 31, 2014 related to these investment securities.

The Company also had a cost method investment in the amount of $2.8 million as of September 30, 2015 and December 31, 2014. No unrealized gains or losses were recorded as of September 30, 2015 and December 31, 2014 related to this investment security.

The Company's investment securities have maturities ranging from one to five years as of September 30, 2015.

In November 2014, the Company acquired an 8% ownership interest in the common stock of Highview Enterprises Limited ("Highview"), a London, England based developmental stage company specializing in power storage, for $2.8

million in cash. The Company evaluated the investment and determined that it should account for the investment under the cost method. This investment is evaluated for impairment upon an indicator of impairment such as an event or change in circumstances that may have a significant adverse effect on the fair value of the investment. As of September 30, 2015 and December 31, 2014, no indicators of impairment had been identified. When there are no indicators of impairment present, the Company estimates the fair value for the Highview investment only if it is practical to do so. As of September 30, 2015 and December 31, 2014, the

16

Company estimated that the fair value of the cost method investment approximated the November 2014 purchase price due to the proximity of the purchase date to December 31, 2014 and September 30, 2015.

17

Note 6 - Borrowings

The following table summarizes the Company's notes payable, all of which are with related parties, as of September 30, 2015 and December 31, 2014:

(in thousands)	As of September 30, 2015	December 31, 2014
Current portion of long-term borrowings		
RCM6 note payable	$1,045	$ 874
DSI Business Owner note payable	623	605
Total current portion of long-term borrowings	1,668	1,479
Long-term borrowings		
RCM6 note payable	13,373	13,312
DSI Business Owner note payable	649	1,119
Total Long-term borrowings	14,022	14,431
Total Borrowings	$15,690	$ 15,910

CCS - RCM6 Note Payable

As described in Note 4, the Company acquired membership interests in RCM6 from CCS in February 2014, through an up-front payment and a note payable. Due to the payment terms of the note purchase agreement, the note payable periodically adds interest to the outstanding note payable principle balance. The stated rate associated with the note is 1.65% and the effective rate of the note at inception was 20%. Due to the difference between the stated rate and the effective rate, the note payable is carried at a discount of $8.1 million and $10.1 million as of September 30, 2015 and December 31, 2014, respectively. Unpaid principal and interest on the note are due in 2022.

As described in Note 12, on March 3, 2016, the Company sold its 24.95% membership interest in RCM6 and, as a result, the Company no future payment obligations related to its RCM6 equity investment.

DSI Business Owner

As of December 31, 2014, the Company terminated the consulting portion of the agreements the former, sole-owner of companies from which BCSI acquired its assets ("DSI Business Owner"), as described in Note 9 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. However, per the terms of the remaining agreements the Company was required to make all remaining payments structured as a note payable through the third quarter of 2017. In February 2016, the Company entered into an agreement with the DSI Business Owner and settled the remaining amounts owed as of the date of the agreement of approximately $1.1 million for $0.3 million which was paid during the first quarter of 2016.

Note 7 - Fair Value Measurements

Fair value of financial instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, deposits and accrued expenses approximate fair value due to the short maturity of these instruments. Accordingly, these instruments are not presented in the table below. The following table provides the estimated fair values of the remaining financial instruments:

(in thousands)	As of September 30, 2015 Carrying Value	Fair Value	As of December 31, 2014 Carrying Value	Fair Value
Financial Instruments:				
Investment securities:				
Investment securities, restricted, long-term	$336	$336	$336	$336
Cost method investment	$2,776	$2,776	$2,776	$2,776
Notes Payable:				
Current portion of notes payable, related party	$1,668	$1,514	$1,479	$1,439
Long-term portion of notes payable, related party	$14,022	$14,113	$14,431	$14,356
Highview technology license payable	$—	$—	$155	$155
Highview technology license payable, long-term	$1,334	$1,334	$1,389	$1,389
Stock appreciation rights, liability-classified equity award	$536	$536	$—	$—

Concentration of credit risk

The Company's certificates of deposit investment securities, and virtually all of the Company's restricted and unrestricted cash accounts, are at two financial institutions. If those institutions were to be unable to perform their obligations, the Company would be at risk regarding the amount of cash and investment in excess of the federal deposit insurance corporation limits ($250 thousand) that would be returned to the Company.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The estimated fair values of investment securities are described below. Refer to Note 5 of these Consolidated Financial Statements for additional information regarding the Company's investment securities.

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The Company uses the hierarchy prescribed in the accounting guidance for fair value measurements, based upon the available inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

•Level 1 Inputs - Quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.

•Level 2 Inputs - Inputs other than quoted prices within Level 1 that are observable either directly or indirectly, including but not limited to quoted prices in markets that are not active, quoted prices in active markets for similar assets or liabilities and observable inputs other than quoted prices such as interest rates or yield curves.

•Level 3 Inputs - Unobservable inputs reflecting the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Financial instruments carried and measured at fair value on a recurring basis are presented in the table below according to the fair value hierarchy described above:

(in thousands)	As of September 30, 2015 Fair Value Measurement Using

	Level 1	Level 2	Level 3	Assets at Fair Value
Assets:				
Investment securities, restricted, long-term	$—	$336	$ —	$ 336
Total assets at fair value	$—	$336	$ —	$ 336
Liabilities:				
Stock appreciation rights, liability-classified equity award	$—	$536	$ —	$ 536
Total liabilities at fair value	$—	$536	$ —	$ 536

19

(in thousands)	As of December 31, 2014 Fair Value Measurement Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets:				
Investment securities, restricted, long-term	$ —	$ 336	$ —	$ 336
Total assets at fair value	$ —	$ 336	$ —	$ 336

The estimated fair value of investments securities consisting entirely of certificates of deposits was estimated to be equal to the deposit value of the investment due to the relative short term nature of the instrument.

As discussed in Note 3, during the first quarter of 2015, contingent consideration was recorded related to the acquisition of ClearView. The transaction called for a series of contingent payments based upon the achievement of sales and sales targets. As part of the purchase price, the Company recorded a $0.5 million liability for the contingent consideration due to the sellers based upon the net present value of the Company's estimate of the future payments. This fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date.

As part of the broader restructuring plan discussed in Note 3, the Company recognized a non-cash gain related to the reversal of the contingent consideration liability as the achievement of sales and sales targets would not be met.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Assets and liabilities measured on a non-recurring basis are presented in the following tables:

(in thousands)	As of September 30, 2015 Fair Value Measurement Using Level 1	Level 2	Level 3	Fair Value	Total Losses
Assets:					
Impaired note receivable	$ —	$ —	$ —	$ —	$ (1,000)
Total assets at fair value	$ —	$ —	$ —	$ —	$ (1,000)

The Company recorded impairment charges related to a Note Receivable. The fair value of the impaired note receivable, determined to be fully impaired, was estimated using a discounted cash flow analysis. The fair value measurements represent a Level 3 measurement.

(in thousands)	As of December 31, 2014 Fair Value Measurement Using Level 1	Level 2	Level 3	Fair Value	Total Losses
Assets:					
Property and equipment	$ —	$ —	$ 424	$ 424	$ (355)

Impaired note receivable	—	—	—	—	(500)
Total assets at fair value	$ —	$ —	$ 424	$ 424	$ (855)

During the fourth quarter of 2014, the Company recorded impairments on property and equipment, with a total carrying value of $0.8 million, respectively, as a result of ongoing negative cash flows related to assets specifically related to the Company's Dry Sorbent Injection ("DSI") system fabrication facility. The fair value of the impaired property and equipment as of December 31, 2014 was estimated using an appraisal obtained from a third party. The fair value measurements represent a Level 3 measurement as it is based on significant inputs not observable in the market. The fair value of the impaired goodwill, determined to be fully impaired, was estimated using a discounted cash flow analysis. The fair value measurement represents a Level 3 measurement.

20

During the fourth quarter of 2015, the Company recorded impairments totaling approximately $0.3 million to reduce the carrying value of certain property and equipment that the Company intended to sell to its estimated sales value, less estimated costs to sell. The property and equipment were subsequently sold at auction. Proceeds from the sale of the impaired assets totaled approximately $0.6 million. No gain or loss was recognized on the sale of the property and equipment.

Also during the fourth quarter of 2015, the Company sold certain property and equipment having a net book value of approximately $0.1 million. Proceeds from the sale totaled approximately $0.3 million, which resulted in the recognition of a gain on the sale of approximately $0.2 million.

Note 8 - Commitments and Contingencies
Legal Proceedings

The Company is involved in certain legal actions, described below. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek monetary damages and other penalties that could require significant expenditures. In accordance with U.S. GAAP, the Company records a liability in the Consolidated Financial Statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties or fines. ADES cannot predict, with any certainty, the final outcome of any legal proceedings as described in the paragraphs below, nor can it provide any assurance that the ultimate resolution of any such matter will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Securities class action lawsuit: United Food and Commercial Workers Union v. Advanced Emissions Solutions, Inc., No. 14-cv-01243-CMA-KMT (U.S. District Court, D. Colo.)

A class action lawsuit against ADES and certain of its current and former officers is pending in the federal court in Denver, Colorado. This lawsuit and a companion case were originally filed in May 2014. On February 19, 2015, the Court consolidated these cases and appointed the United Foods and Commercial Workers Union and Participating Food Industry Employers Tri-State Pension Fund as lead plaintiff and approved its selection of the law firms. The consolidated case is now captioned United Food and Commercial Workers Union v. Advanced Emissions Solutions, Inc., No. 14-cv-01243-CMA-KMT (U.S. District Court, D. Colo.).

The lead plaintiff filed "Lead Plaintiff's Consolidated Class Action Complaint" on April 20, 2015 (the "Consolidated Complaint"). The Consolidated Complaint names as defendants the Company and certain current and former Company officers.

Plaintiffs allege that ADES and other defendants misrepresented to the investing public the Company's financial condition and its financial controls to artificially inflate and maintain the market price of ADES's common stock. The Consolidated Complaint alleges two claims for relief for: 1) alleged violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, and 2) control person liability under Section 20(a) of the Exchange Act.

The lawsuit seeks unspecified monetary damages together with costs and attorneys' fees incurred in prosecuting the class action, among other relief. The Consolidated Complaint alleges a class period covering all purchasers or acquirers of the common stock of ADES or its predecessor-in-interest during the proposed class period from May 12, 2011 through January 29, 2015.

Defendants filed a motion to dismiss the Consolidated Complaint on June 19, 2015, contending the Consolidated Complaint: 1) fails to meet the strict pleading standards required for Section 10(b) claims; and 2) fails to establish the primary violation required for any claim of secondary (control person) liability. Plaintiffs filed a response in opposition to this motion on July 2, 2015 and Defendants filed their reply brief on July 16, 2015. On March 7, 2016 the parties filed a stipulated motion to stay the case while the parties mediate the matter. On March 8, 2016, the motion to stay was granted, and the Defendants' motion to dismiss was denied without prejudice with the option to refile should mediation fail. The case is stayed until further order of the court.

The Company has not recorded an expense related to losses in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

Stockholder derivative lawsuits: In Re Advanced Emissions Solutions, Inc. Shareholder Derivative Litigation, No. 2014CV-30709 (District Court, Douglas County, Colorado) (consolidated actions).

Consolidated stockholder derivative claims against certain of the Company’s current and former officers and directors, along with the Company as a "nominal defendant", are pending in the District Court for Douglas County, Colorado, and are currently stayed.

In June and July 2014 stockholder derivative actions were filed in the Colorado District Courts for Douglas County and for the City and County of Denver. By agreement of the parties, the case in the Denver District Court was transferred to the Douglas County District Court and the cases were consolidated.

In separate complaints, the plaintiffs allege breach of fiduciary duties, waste of corporate assets, and unjust enrichment against the defendants for their alleged use of improper accounting techniques and for failing to maintain effective internal controls that, together, resulted in materially inaccurate financial statements from which incentive compensation was derived and paid. Plaintiffs demand, on behalf of the Company, unspecified monetary damages, “appropriate equitable relief,” and the costs and disbursements of the action, including attorneys', accountants and expert fees, costs, expenses, and restitution, as well as certain corporate governance charges.

On August 28, 2014, the Colorado state court approved a Stipulation and proposed Order Consolidating Actions, Appointing Co-Lead Plaintiffs and Co-Lead Counsel, and Staying Consolidated Action. Under that Order the consolidated derivative actions are stayed at least 30 days after a decision by the U.S. District Court on Defendants’ motion to dismiss the operative complaint in the securities class action described above. Any party has the right to move to lift the stay on 30-days’ written notice to the other parties.

The Company has not recorded an expense related to losses in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.
SEC Inquiry
On April 7, 2014, the SEC’s Division of Enforcement informed the Company that it had initiated an inquiry to determine if violations of the federal securities laws have occurred (the “SEC Inquiry”), and in September 2014 the SEC issued a formal order of investigation. The SEC Inquiry generally pertains to the restatement of the Company's financial statements and internal controls processes, as described in Note 2 to the Consolidated Financial Statements of the Company included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The Company is fully cooperating with the SEC and has provided information and documents to the SEC on an ongoing basis. To date, the SEC has not asserted any formal claims. While we cannot predict the duration or outcome of the SEC Inquiry, it could result in the payment of monetary penalties and other relief.
The Company has not recorded an expense related to losses in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.
Settlement and royalty indemnity
In August 2008, Norit International N.V. f/k/a Norit N.V. ("Norit") filed a lawsuit against the Company asserting claims for misappropriation of trade secrets and other claims related to the Company's ADA Carbon Solutions, LLC joint venture ("Carbon Solutions"). In August 2011, the Company and Norit entered into a settlement agreement whereby the Company paid amounts related to the non-solicitation breach of contract claim and ADA was also required to pay additional damages related to certain future revenues generated from the equity method investment

through Q2 2018 (the “Royalty Award”). Payments of amounts due under the Royalty Award for each quarter are payable three months after such quarter ends through the second quarter of 2018. In October 2011, an arbitration panel endorsed and confirmed the terms of the settlement agreement.

22

Additionally, during November 2011, the Company entered into an Indemnity Settlement Agreement whereby the Company agreed to settle certain indemnity obligations asserted against the Company related to the Norit litigation and relinquished all of its equity interest in Carbon Solutions to Carbon Solutions and amended the Intellectual Property License Agreement dated October 1, 2008 between the Company and Carbon Solutions. In the event that the Company declares or otherwise issues a dividend to any or all of its stockholders prior to January 1, 2018, other than repurchases of common stock under employee stock plans, the Company must increase its letter of credit amounts, which support the payments which must be paid to Norit, equal to 50% of the aggregate fair market value of such dividends.

As of September 30, 2015 and December 31, 2014, the Company has recorded the components of the Settlement and royalty indemnity obligation within the following line items in the Condensed Consolidated Balance Sheets:

(in thousands)	As of September 30, 2015	December 31, 2014
Settlement and royalty indemnity obligation, short-term	$5,275	$ 3,749
Litigation settlement and royalty indemnity expense, net	16,218	20,273
Total settlement and royalty indemnity	$21,493	$ 24,022

Future amounts to be paid related to the Royalty Award may differ from current estimates due to future adjusted sales of activated carbon from the Red River plant.

CCS

The Company also has certain limited obligations contingent upon future events in connection with the activities of CCS. The Company, NexGen and two entities affiliated with NexGen have provided GSFS with limited guaranties (the “CCS Party Guaranties”) related to certain losses it may suffer as a result of inaccuracies or breach of representations and covenants. The Company also is a party to a contribution agreement with NexGen under which any party called upon to pay on a CCS Party Guaranty is entitled to receive contribution from the other party equal to 50% of the amount paid. No liability or expense provision has been recorded by the Company related to this contingent obligation as the Company believes that it is not probable that a loss will occur with respect to CCS Party Guaranties.

Consultant obligation

On January 1, 2012, the Company entered into a residual payment agreement with a former consultant who was involved in the development and deployment of RC technologies. Pursuant to the agreement, the Company was required to make annual payments based upon CCS RC production from January 1, 2012 through June 30, 2015. These expenses are recorded within the Legal and professional fees line item in the Condensed Consolidated Statements of Operations and are recorded as RC production occurs. The following tables summarize the expenses under this agreement for the three and nine months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Consultant expense	$(16)	$226	$263	$783

Line of Credit

In September 2013, ADA, as borrower, and ADES, as guarantor, entered into a 2013 Loan and Security Agreement with a bank for an aggregate principal amount of $10 million that is secured by certain amounts due to the Company from certain CCS RC leases (the "Line of Credit"). As amended, the Line of Credit is available until May 31, 2016. Covenants in the Line of Credit include a borrowing base limitation that is based on a percentage of the net present value of ADA’s portion of payments due to Clean Coal from the RC leases. The Line of Credit also contains other affirmative and negative covenants and customary indemnification obligations of ADA to the lender and provides for the issuance of Letters of Credit provided that the aggregate amount of the Letters of Credit plus all advances then

outstanding does not exceed the calculated borrowing base. The Company guaranteed the obligations and agreements of ADA under the Line of Credit. Amounts outstanding under the line of credit bear interest payable monthly at a rate per annum equal to the higher of 5% or the "Prime Rate" (as defined in the agreement) plus 1%. There were no outstanding balances under this agreement at September 30, 2015 and December 31, 2014, respectively. As a result of certain covenant violations, the Company has no borrowing availability under this facility.

23

The Line of Credit has been amended six times (December 2, 2013, April 3, 2014, September 20, 2014, December 15, 2014, May 29, 2015 and September 30, 2015), most notably to extend the maturity date. The lender has also provided seven waivers relating to various transactions and obligations to provide financial information to the lender.

Letters of Credit

The Company has letters of credit ("LOC") with two financial institutions related to equipment projects, the Royalty Award and certain other agreements. The following tables summarize the letters of credit outstanding, collateral, by type, and the related line items within the Condensed Consolidated Balance Sheets where the collateral related to the letters of credit is recorded:

	As of September 30, 2015			
(in thousands)	LOC Outstanding	Restricted Cash	Restricted cash, long-term	Investment securities, restricted, long-term
Contract performance - equipment systems	$5,556	$ 727	$ 4,830	$ —
Royalty Award	6,150	—	6,150	—
Other	328	—	—	336
Total LOC outstanding	$12,034	$ 727	$ 10,980	$ 336

	As of December 31, 2014			
(in thousands)	LOC Outstanding	Restricted Cash	Restricted cash, long-term	Investment securities, restricted, long-term
Contract performance - equipment systems	$7,247	$ 2,527	$ 4,721	$ —
Royalty Award	4,050	—	4,050	—
Other	328	—	—	336
Total LOC outstanding	$11,625	$ 2,527	$ 8,771	$ 336

Restricted balances may exceed the letters of credit outstanding due to interest income earned on the restricted balances.

Performance Guarantee on Equipment Systems

In the normal course of business related to ACI and DSI systems, the Company may guarantee certain performance thresholds during a discrete performance testing period that do not extend beyond six months from the initial test date, the commencement of which is determined by the customer. Performance thresholds include such matters as the achievement of a certain level of mercury removal and other emissions based upon the injection of a specified quantity of a qualified activated carbon or other chemical at a specified rate given other plant operating conditions, availability of equipment and electric power usage. In the event the equipment fails to perform as specified during the testing period, the Company may have an obligation to correct or replace the equipment. In the event the level of mercury removal is not achieved, the Company may have a “make right” obligation within the contract limits. Prior to the third quarter of 2015, the Company had never incurred a performance guarantee claim. If incurred, guarantees are included within the Equipment sales cost of revenue line of the Condensed Consolidated Statements of Operations. However, during the three months ended September 30, 2015, the Company began working to modify and correct two performance guarantee issues related to EC systems. Resolution of these performance guarantees is not expected to result in a material adverse effect on the Company’s operating performance or liquidity in 2015 or beyond. However, no revenue has been recognized related to these contracts as a result of these claims.

Note 9 - Stock-Based Compensation

The Company grants equity based awards to employees and non-employee directors. Equity based awards include RSA's, Stock Options, PSU's and Stock Appreciation Rights ("SAR's"). Stock-based compensation expense related to employees is included within the Payroll and benefits line item in the Condensed Consolidated Statements of

Operations. Stock-based compensation expense related to non-employee directors is included within the General and administrative line item in the Condensed Consolidated Statements of Operations.

24

Total stock-based compensation expense for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Restricted stock award expense	$415	$1,202	$2,354	$2,202
Stock option expense	46	41	616	72
PSU expense	157	743	2,590	1,457
SAR expense	19	—	536	—
Total stock-based compensation expense	$637	$1,986	$6,096	$3,731

The amount of unrecognized compensation cost as of September 30, 2015, and the expected weighted average period over which the cost will be recognized is as follows:

	As of September 30, 2015	
(in thousands)	Unrecognized Compensation Cost	Expected Weighted Average Period of Recognition (in years)
Restricted stock award expense	$ 1,510	0.9
Stock option expense	290	1.1
PSU expense	918	1.0
SAR expense	951	0.5
Total unrecognized stock-based compensation expense	$ 3,669	0.9

Restricted Stock Awards

Restricted stock is typically granted with vesting terms of three or five years. The fair value of restricted stock awards is determined based on the closing price of the Company's common stock on the authorization date of the grant multiplied by the number of shares subject to the stock award. Compensation expense for restricted stock awards is recognized over the entire vesting period on a straight-line basis. A summary of restricted stock award activity under the Company's various stock compensation plans for the nine months ended September 30, 2015 is presented below:

Non-vested at (in thousands, except for per share amounts)	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	209,921	$ 13.59
Granted	127,943	14.97
Vested	(157,623)	17.78
Forfeited	(16,659)	17.79
Non-vested at September 30, 2015	163,582	$ 10.20

During the three and nine months ended September 30, 2015, the Company accelerated the terms of equity awards, including both RSA's and PSU's, granted to employees as part of the reduction in workforce. The Company recorded incremental expense of zero and $3.1 million, respectively, in the Payroll and benefits line item in the Consolidated Statement of Operations.

Stock Options

Stock options generally vest over three years and have a contractual limit of five years from the date of grant to exercise. The fair value of stock options granted pursuant to one of the Company's plans is determined on the date of grant using the Black-Scholes option pricing model and the related expense is recognized on a straight-line basis over the entire vesting period.

The fair value of the Company's options that were granted during the nine months ended September 30, 2015 was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2015	
Stock options granted:		
Risk-free interest rate	1.8	%
Dividend yield	—	%
Volatility	74.5	%
Expected term (in years)	5.0	

A summary of option activity (collectively referred to as options in the below table) for the nine months ended September 30, 2015 is presented below:

(in thousands, except for per share amounts)	Number of Options Outstanding and Exercisable		Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (in years)
Options outstanding, January 1, 2015	74,200		$ 13.76		
Options granted	56,250		$ 13.87		
Options exercised	—		$ —		
Options expired / forfeited	(24,200	)	$ 7.59		
Options outstanding, September 30, 2015	106,250		$ 15.22	$ —	4.0
Options exercisable as of September 30, 2015	79,581		$ 14.22	$ —	4.2

Stock Appreciation Rights

Stock Appreciation Rights ("SAR's") generally vest over three years and have a contractual limit of five years from the date of grant to exercise. The fair value of SAR's granted pursuant to one of the Company’s plans is determined on the date of grant using the Black-Scholes option pricing model and the related expense is recognized on a straight-line basis over the entire vesting period.

The fair value of the Company's SAR's that were granted during the nine months ended September 30, 2015 was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2015	
SAR's granted:		
Risk-free interest rate	1.8	%
Dividend yield	—	%
Volatility	74.5	%
Expected term (in years)	5.0	

A summary of SAR's activity for the nine months ended September 30, 2015is presented below:

26

(in thousands, except for per share amounts)	Number of Options Outstanding and Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (in years)
SAR's outstanding January 1, 2015	—	$ —		
Granted	243,750	$ 13.87		
Exercised	—	$ —		
Expired / forfeited	—	$ —		
SAR's outstanding June 30, 2015	243,750	$ 13.87	$ —	4.8
SAR's exercisable as of June 30, 2015	43,750	$ 13.87	$ —	—

The SAR's awarded during the nine months ended September 30, 2015 were awarded to the Company's Chief Executive Officer. If Amendment No. 4 to the Company’s Amended and Restated 2007 Equity Incentive Plan, as amended, is approved by a vote of the stockholder's prior to June 5, 2017, the SAR award will automatically terminate and the Option award granted in tandem with the SAR award will become exercisable pursuant to the vesting terms thereof. However, until stockholder approval is obtained, as settlement of the award is out of the control of the Company, the awards are currently classified as liability based equity awards and are recorded at the estimated fair value at each balance sheet date.

Performance Share Units

Compensation expense is recognized for PSU awards on a straight-line basis over the applicable service period, which is generally three years, based on the estimated fair value at the date of grant using a Monte Carlo simulation model. The fair value of the Company's PSU's granted during the nine months ended September 30, 2015 were estimated at the date of grant with the following weighted-average assumptions:

	Nine Months Ended September 30, 2015	
PSUs granted:		
Risk-free interest rate	1.0	%
Dividend yield	—	%
Volatility	64.3	%
Performance period (in years)	3.0	

A summary of PSU activity under the Plans for the nine months ended September 30, 2015 is presented below:

(in thousands except per share amounts)	Units	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	142,357	$ 30.65
Granted (1)	69,218	20.10
Vested / Settled (1)	(13,763)	30.52
Forfeited / Canceled (1)	(2,420)	26.04
Non-vested at September 30, 2015	195,392	$ 26.98

(1) The number of units shown in the table above are based on target performance. The final number of shares of common stock issued may vary depending on the achievement of market conditions established within the awards, which could result in the actual number of shares issued ranging from zero to a maximum of two times the number of units shown in the above table.

The following table shows the PSUs that were settled during the nine months ended September 30, 2015 by issuing the Company's common stock relative to a broad stock index and a peer group performance index. There were no PSUs settled during the nine months ended September 30, 2014.

27

	Year of Grant	Net Number of Issued Shares upon Vesting	Shares Withheld to Settle Tax Withholding Obligations	TSR Multiple Range		Russell 3000 Multiple	
				Low	High	Low	High
Nine Months Ended September 30, 2015							
	2013	8,768	3,954	1.75	1.75	2.00	2.00
	2014	2,506	1,145	0.63	0.75	—	0.75

28

Note 10 - Income Taxes

For the three and nine months ended September 30, 2015 and 2014, the Company's income tax expense and effective tax rates on forecasted pretax losses were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except for rate)	2015	2014	2015	2014
Income tax expense	$44	$113	$151	$155
Effective tax rate	(1)%	(3)%	(1)%	(5)%

The effective tax rates for the three and nine months ended September 30, 2015 and 2014 were different from the statutory rate primarily due to an increase in the Company's valuation allowances against federal and state net operating losses and federal tax credits, which was partially offset by estimated state tax expense.

The Company projects that its deferred tax assets will exceed its deferred tax liabilities as of December 31, 2015. As a result, the Company determined that it is not more likely than not that it would be able to realize the value of its federal and state net operating loss carryforwards, tax credits and other deferred tax assets and has recorded a full valuation allowance against the excess deferred tax assets. This valuation allowance is expected to increase over time as the Company's deferred tax assets increase.

Note 11 - Business Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by a company's chief operating decision maker ("CODM"), or a decision making group, in deciding how to allocate resources and in assessing financial performance. As of September 30, 2015, the Company's CODM was the Company's CEO. The Company's operating and reportable segments are organized by products and services provided. Segments have been reorganized from prior periods due to changes within the Company's management structure and the manner in which the Company is operating the business. All prior periods have been conformed to the current year presentation.

The Company had four reportable segments during the periods presented: (1) Refined Coal ("RC"); (2) Emissions Control - Engineering and Technology Services ("EC - ETS"); (3) Emissions Control - Manufacturing ("EC - Manufacturing"); and (4) Research and Development ("R&D").

The business segment measurements provided to and evaluated by the CODM are computed in accordance with the principles listed below:

- The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except as described below.
- Segment revenue includes the Company's equity method earnings and losses from the Company's equity method investments. Segment revenue also includes the Company's royalty earnings from CCS.
- Segment operating income (loss) includes the Company's equity method earnings and losses from the Company's equity method investments and royalty earnings from CCS (including depreciation and amortization expense). However, segment operating income (loss) excludes Payroll and benefits, Rent and occupancy, Legal and professional fees, and General and administrative ("Corporate general and administrative expenses") unless otherwise specifically included as the Company does not allocate those amounts between segments.
- Segment revenue includes Research and Development reimbursements.
- All items not included in operating income are excluded from the segments reporting.

29

As of September 30, 2015 and December 31, 2014 all material assets are located in the U.S. and all significant customers are either U.S. companies or the U.S. Government. The following table presents the Company's operating segment results for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Revenues:				
Refined Coal:				
Earnings in equity method investments	$(41)	$5,603	$5,133	$22,019
Consulting services	—	160	55	596
Royalties	3,273	2,275	7,767	4,255
	3,232	8,038	12,955	26,870
Emissions Control - Engineering Technology and Services:				
Equipment sales	8,787	7,139	44,046	8,893
Consulting services	664	850	1,255	1,856
Chemical and other	132	77	749	214
	9,583	8,066	46,050	10,963
Emissions Control - Manufacturing:				
Equipment sales	3,302	356	3,394	601
Consulting services	—	490	38	1,070
Chemical and other	—	—	—	—
	3,302	846	3,432	1,671
Research and Development:	859	612	1,271	1,550
	859	612	1,271	1,550
Total segment reporting revenues	$16,976	$17,562	$63,708	$41,054
Adjustments to reconcile to reported revenues:				
Refined Coal:				
Earnings in equity method investments	$41	$(5,603)	$(5,133)	$(22,019)
Royalties	(3,273)	(2,275)	(7,767)	(4,255)
	(3,232)	(7,878)	(12,900)	(26,274)
Research and Development:	(859)	(612)	(1,271)	(1,550)
Total reported revenues	$12,885	$9,072	$49,537	$13,230
Segment reporting operating income (loss)				
Refined Coal	$1,458	$6,491	$7,294	$22,406
Emissions Control - Engineering Technology Services	1,394	(72)	5,839	(1,997)
Emissions Control - Manufacturing	(2,402)	(1,539)	(7,772)	(3,535)
Research and Development	(2,416)	(382)	(6,400)	(1,181)
Total segment operating income (loss)	$(1,966)	$4,498	$(1,039)	$15,693

A reconciliation of reportable segment amounts to the Company's consolidated balances is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Segment income (loss)				
Total reported segment income (loss)	$(1,966)	$4,498	$(1,039)	$15,693
Adjustments to reconcile to net loss attributable to Advanced Emissions Solutions, Inc.				
Corporate payroll and benefits	(2,341)	(4,014)	(11,852)	(9,581)
Corporate rent and occupancy	(202)	(185)	(503)	(512)
Corporate legal and professional fees	(3,150)	(2,903)	(10,514)	(5,611)
Corporate general and administrative	(740)	(899)	(2,731)	(2,926)
Depreciation and amortization	(143)	(88)	(448)	(259)
Interest income	2	14	20	61
Other expense	(70)	(9)	(15)	—
Income tax expense	(44)	(113)	(151)	(155)
Net loss	$(8,654)	$(3,699)	$(27,233)	$(3,290)

Unallocated general and administrative expenses include certain costs that benefit the business as a whole but are not directly related to one of our segments. Such costs include but are not limited to accounting and human resources staff, information systems costs, legal fees, facility costs, audit fees and corporate governance expenses.

Segment assets were as follows as of the dates presented:

(in thousands)	As of September 30, 2015	December 31, 2014
Refined Coal (1)	$21,062	$ 21,322
Emissions Control - Engineering Technology and Services:	20,233	34,175
Emissions Control - Manufacturing	8,291	11,285
Research and Development	5,225	6,431
All Other and Corporate	10,494	20,486
Consolidated	$65,305	$ 93,699

(1) The asset carrying value of the Company's equity investment in CCS was zero as of September 30, 2015 and December 31, 2014, respectively.

During the fourth quarter of 2015 the Company realigned its operating segments into two reportable segments: (1) Refined Coal ("RC"); and (2) Emissions Control ("EC"). Beginning with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, the Company will retroactively adjust all segment related disclosures.

Note 12 - Subsequent Events

Unless disclosed elsewhere within the notes to the Condensed Consolidated Financial Statements, the following are the matters that occurred subsequent to the balance sheet date.

Highview License

In November 2014, in addition to acquiring the cost method investment in Highview, as described in Note 5, the Company's subsidiary, ADA-ES, Inc. also acquired an exclusive license to utilize Highview's technology in North America. The technology license is included within the Other assets line item in the Condensed Consolidated Balance Sheets and is being amortized over a 10-year period. The liability is included within the Other current liabilities and Other long-term liabilities line items in the Condensed Consolidated Balance Sheets. The technology license agreement was amended in November 2015 to defer license fee payments for a period of one year, allowing the

Company to elect a non-exclusive license at a lower cost, or to terminate the

31

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license in return for paying a buy-out fee starting at £0.2 million if terminated in 2016 ($0.3 million based upon the exchange rate in effect as of the date of the November 2015 amendment) and decreases annually over the term of the 10 year agreement.

Assets Sold and Lease Abandoned

As discussed within Note 2, as part of a broader strategic restructuring of the Company's business, the Company's management approved an action to wind down the manufacturing operations of BCSI, LLC, in order to focus the Company's efforts within the DSI market on engineering. During the fourth quarter of 2015, the Company classified certain assets used in the BCSI, LLC manufacturing operations as held for sale. In doing so, the Company recognized impairment expense of approximately $0.3 million to reduce the carrying value of the assets to their estimated sales value, less estimated costs to sell. The property and equipment was subsequently sold at auction. Proceeds from the sale of the impaired assets totaled approximately $0.6 million. No gain or loss was recognized on the sale of the property and equipment.

Also during the fourth quarter of 2015, the Company sold certain property and equipment having a net book value of approximately $0.1 million. Proceeds from the sale totaled approximately $0.3 million, which resulted in the recognition of a gain on the sale of approximately $0.2 million.

The Company also closed its fabrication facility in McKeesport, Pennsylvania during the fourth quarter of 2015 and recognized $0.8 million of expense related to the abandonment of leased facilities. In March 2016, the Company entered into an agreement to terminate various lease agreements covering approximately 207 thousand square feet of manufacturing, warehouse and office space located in Pennsylvania. As consideration for terminating the leases, the Company agreed to pay the lessor termination fees of $250 thousand in April 2016 and the same amount in April 2017.

RCM6 Sale

On March 3, 2016, the Company sold its 24.95% membership interest in RCM6 for a cash payment of $1.8 million and assumption of the outstanding note payable made by the Company in connection with its purchase of RCM6 membership interests from CCS in February 2014. As a result of the sale, the Company is no longer a member of RCM6 and is no longer subject to any quarterly capital calls and variable payments to RCM6. However, the Company will still receive it pro-rata share of income and cash distributions through its ownership in CCS. The income and cash distribution will be generated from the RCM6 RC facility lease payments made to CCS.

Notes Payable subsequent to September 30, 2015

On October 22, 2015, the Company entered into the credit agreement for a $15.0 million term loan, with Franklin Mutual Quest Fund and MFP Investors LLC (the "Lenders"), and Wilmington Trust, National Association, as the administrative agent and collateral agent (the “Credit Agreement”), which was subsequently amended in 2016 as discussed below. Under the original terms and conditions, the Credit Agreement matured on April 22, 2016, subject to a three month extension at the Company's option to the extent certain conditions are met. The Credit Agreement bears interest at an annual rate equal to 10.5% and is subject to various prepayment and other premiums if certain events, including a change in control, occur. The Company received net proceeds of $13.9 million and recorded debt discounts and debt issuance costs of $1.5 million. The debt discounts and debt issuance costs will be amortized to interest expense using the effective interest method over the life of the Credit Agreement. The net proceeds are being used to fund working capital needs and for general operating purposes of the Company and its subsidiaries.

On February 8, 2016, the Company entered into a first amendment to the Credit Agreement ("First Amendment") that extended the SEC filings date to March 30, 2016. On March 30, 2016, the Company entered into the second amendment to the Credit Agreement ("Second Amendment"). The Second Amendment extended the maturity date to July 8, 2016, extended the Company's filing date deadline related to its 2015 SEC filings to April 20, 2016, increased the stated interest rate from 10.5% to 15.0% and increased the minimum cash balance requirement from $3.0 million to $3.5 million. The Company incurred approximately $0.6 million in fees related to the Second Amendment.

All obligations of the Company under the Credit Agreement are unconditionally guaranteed by each of the Company’s wholly-owned domestic subsidiaries (excluding ADA Analytics, LLC) and are secured by perfected security interests in substantially all of the assets of the Company and the guarantors, subject to certain agreed upon exceptions.

The Lenders are beneficial owners of Common Stock in the Company. The Credit Agreement was approved by the Company's Board of Directors and by the Audit Committee as a related party transaction.

32

In connection with the Credit Agreement, and the Company's pledge and assignment to the Collateral Agent for all of ADA's equity interests in CCSS, the Lenders required that NexGen consent to a pledge. The Company entered into an Indemnity Agreement with NexGen whereby ADES and ADA agreed to indemnify NexGen from and against any and all losses, claims, damages, liabilities, costs, fees or expenses, which may arise in connection with the Company pledging its CCSS equity interests. The Indemnity Agreement was approved by the Company's Board of Directors and by the Audit Committee as a related party transaction.

In April 2016, the Company initiated a workforce reduction plan affecting approximately 30% of the Company’s employees ("Restructuring"). In connection with these actions, the Company currently expects to record aggregate charges with respect to severance payments, benefits continuation and vesting of certain equity awards that are estimated to be approximately $0.6 million - $0.9 million and are expected to be recorded during the second and third quarters of 2016. Cash expenditures related to the Restructuring are expected to be approximately $0.6 million - $0.9 million.

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

The following discussion and analysis of the financial condition and results of our operations should be read together with the unaudited Condensed Consolidated Financial Statements and notes of Advanced Emissions Solutions, Inc. (“ADES" or the “Company”) included elsewhere in Item 1 of Part I of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and the related notes of ADES, included in our most recent Annual Report on Form 10-K for the year ended December 31, 2014.

Overview

ADES serves as the holding entity for a family of companies that provide emissions solutions to customers in the coal-fired power generation, industrial boiler and cement industries. Through its subsidiaries and joint ventures, the Company is a leader in emissions control technologies and associated equipment, chemicals, and services. Our proprietary environmental technologies enable our customers to reduce emissions of mercury and other pollutants, maximize utilization levels and improve operating efficiencies to meet the challenges of existing and pending emission control regulations.

Our approach to technology development, implementation and commercialization involves taking technology to full-scale testing as quickly as we can and enhancing the technology under actual operating conditions.

Our major activities include:

- Development and sale of technology to reduce emissions and improve operations of coal-fired boilers used for power generation and industrial processes;
- Development and sale of equipment, consulting services, specialty chemicals and other products designed to reduce emissions of mercury, acid gases, metals and other pollutants and the providing of technology services in support of our customers' emissions compliance strategies;
- Research and development of technologies and other solutions to advance cleaner energy and to help our customers meet existing and future regulatory and business challenges, including Carbon Dioxide (“CO_2”) emissions control technologies and technologies designed to reduce other emissions related to power generation or industrial processes;
- Through CCS, an unconsolidated entity, reduction of mercury and nitrogen oxide ("NO_X") emissions at select coal-fired power generators, via the production of Refined Coal. Additionally, benefit from the tax credits generated by the production of RC by retaining the credits or selling or leasing the pertinent RC facilities to tax equity investors. See the separately filed financial statements of CCS and the other related RC entities within the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Results of Operations

For comparability purposes, the following tables set forth our results of operations for the periods presented in our Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report. The period-to-period comparison of financial results may not be indicative of financial results to be achieved in future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Revenues:				
Equipment sales	$12,088	$7,496	$47,439	$9,495
Consulting services	665	1,499	1,349	3,521
Chemicals and other	132	77	749	214
Total revenues	12,885	9,072	49,537	13,230
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	9,914	5,737	38,662	6,940
Consulting services cost of revenue, exclusive of depreciation and amortization	591	704	1,282	1,669
Chemical and other cost of revenue, exclusive of depreciation and amortization	105	71	383	108
Payroll and benefits	4,445	6,438	19,102	15,294
Rent and occupancy	596	667	1,828	1,784
Legal and professional fees	3,424	3,560	11,545	7,487
General and administrative	1,249	1,428	4,635	3,981
Research and development, net	2,022	277	5,133	871
Depreciation and amortization	528	469	1,632	1,364
Total operating expenses	22,874	19,351	84,202	39,498
Operating loss	(9,989)	(10,279)	(34,665)	(26,268)
Other income (expense):				
Earnings (loss) from equity method investments	(41)	5,603	5,133	22,019
Royalties, related party	3,273	2,275	7,767	4,255
Interest income	2	14	20	61
Interest expense	(1,778)	(1,190)	(5,347)	(3,202)
Settlement and royalty indemnity expense, net	—	—	—	—
Other	(77)	(9)	10	—
Total other income (expense), net	1,379	6,693	7,583	23,133
Loss before income tax expense	(8,610)	(3,586)	(27,082)	(3,135)
Income tax expense	44	113	151	155
Net loss	$(8,654)	$(3,699)	$(27,233)	$(3,290)

35

Comparison of the Three Months Ended September 30, 2015 and 2014

Total Revenue and Cost of Revenue
A summary of the components of our revenue and costs of revenue for the three months ended September 30, 2015 and 2014 is as follows:

(in thousands, except percentages)	Three Months Ended September 30, 2015	2014	Change ($)	(%)
Revenues:				
Equipment sales	$12,088	$7,496	$4,592	61 %
Consulting services	665	1,499	(834)	(56)%
Chemicals and other	132	77	55	71 %
Total revenues	12,885	9,072	3,813	42 %
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	9,914	5,737	4,177	73 %
Consulting services cost of revenue, exclusive of depreciation and amortization	591	704	(113)	(16)%
Chemical and other cost of revenue, exclusive of depreciation and amortization	105	71	34	48 %

Equipment sales and Equipment sales cost of revenue, exclusive of items shown separately below
During the three months ended September 30, 2015 and 2014, we entered into two and three long term (6 months or longer) fixed price contracts to supply Activated Carbon Injection ("ACI") systems with aggregate contract values including associated change orders of $0.8 million and $4.0 million, respectively. Total value per contract may change due to the relative sizes of ACI systems and the contracts related thereto. During the three months ended September 30, 2015 and 2014, we completed seven and nine ACI systems, recognizing revenues of $8.5 million and $7.1 million and costs of revenue of $6.0 million and $5.4 million, respectively. We did not recognize any loss provisions related to contracts during the three months ended September 30, 2015 and 2014 related to ACI systems.

During the three months ended September 30, 2015 and 2014, we entered into zero and one long term (6 months or longer) fixed price contracts to supply Dry Sorbent Injection ("DSI") systems and other material handling equipment with aggregate contract values including associated change orders of $0.1 million and $1.0 million, respectively. Total value per contract may change due to the relative sizes of DSI systems and the contracts related thereto. During the three months ended September 30, 2015 and 2014, we completed three and one DSI systems, recognizing revenues of $3.3 million and $0.3 million and costs of revenue of $3.8 million and $0.2 million, respectively. Due to potential cost overruns related to certain DSI projects, we expect that the future relationship between revenues and costs may be dissimilar from prior results. Certain of the DSI system long-term fixed price contracts were expected to be completed with losses. As a result, cost of sales included $1.2 million and zero in loss provisions related to DSI system contracts that were recognized during the three months ended September 30, 2015 and 2014, respectively. Due to the completed contract method of revenue recognition, these amounts are included in Costs in excess of billings on uncompleted contracts on our Condensed Consolidated Balance Sheets and will be recognized within Cost of sales within Equipment sales cost of revenue when revenue is recognized on these projects.

The remaining changes were due to other equipment sales.

Consulting services and Consulting services cost of revenue
We provided consulting services related to emissions regulations. During the three months ended September 30, 2015 and 2014, revenues decreased period over period due to a decrease in average contract revenue, which will fluctuate due to customer mix and specific consulting engagements, as well as a decrease in the number of consulting service engagements performed.

Chemicals and other

The most significant component of Chemicals and other revenues and costs of revenues were chemical sales related to emissions control technologies. During the three months ended September 30, 2015 and 2014, revenues increased year over year due to an increase in average contract revenue. Due to coal-fired power plant requirements to be in compliance with

applicable regulations in 2015 and beyond, we believe this will lead to an increase in the market for these products in the future.

Additional information related to revenue concentrations and contributions by class and reportable segment can be found within the segment discussion below and in Note 11 to the Company's Condensed Consolidated Financial Statements.

Other Operating Expenses

A summary of the components of our operating expenses, exclusive of costs of revenue (presented above), for the three months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended September 30,		Change	
(in thousands, except percentages)	2015	2014	($)	(%)
Operating expenses:				
Payroll and benefits	$4,445	$6,438	$(1,993)	(31)%
Rent and occupancy	596	667	(71)	(11)%
Legal and professional fees	3,424	3,560	(136)	(4)%
General and administrative	1,249	1,428	(179)	(13)%
Research and development, net	2,022	277	1,745	630 %
Depreciation and amortization	528	469	59	13 %
	$12,264	$12,839	$(575)	(4)%

Payroll and benefits

Payroll and benefits expenses decreased during the three months ended September 30, 2015 compared to the same period in 2014 primarily due to the restructuring expenses of $2.0 million related departure of certain executive officers during the three months ended September 30, 2014. The Company recorded restructuring expenses of $2.7 million in connection with employees impacted by management's alignment of the business with strategic objectives during the three months ended September 30, 2015. The remaining decrease relates to a decrease in executive and overall head count period over period.

Rent and occupancy

Rent and occupancy expenses decreased during the three months ended September 30, 2015 compared to the same period in 2014 primarily due to the Company terminating a lease relating to warehouse space in the third quarter of 2015. This decrease is partially offset by an increase in insurance expense.

Legal and professional fees

Legal and professional fees expenses decreased during the three months ended September 30, 2015 compared to the same period in 2014 as a result of a decrease in the professional resources deployed to address the Restatement of our consolidated financial statements, including the ongoing SEC Inquiry. We began incurring such costs near the end of the second quarter of 2014. Expenses related to the Restatement during the three months ended September 30, 2015 and 2014 were $1.8 million and $2.6 million respectively. The decrease is offset by increases in expenses related to general business activities. The decrease in the quarter ended September 30, 2015 is not necessarily indicative of expense levels or trends expected in future quarters.

General and administrative

General and administrative expense decreased during the three months ended September 30, 2015 compared to the same period in 2014 due to compared to the same period in 2014 due to a decrease in general operating expenses, specifically recruiting and travel expenses.

Research and development, net

Research and development expense increased during the three months ended September 30, 2015 compared to the same period in 2014 due primarily to impairment charges of $1.9 million related to ADA Analytics, LLC. This increase was offset by an increase in reimbursable expenses from the Department of Energy ("DOE") and industry cost share partners.

Depreciation and amortization

Depreciation and amortization expense increased during the three months ended September 30, 2015 compared to the same period in 2014 due to amortization of the Highview technology license and asset additions.

Other Income (Expense), net

A summary of the components of our other income (expense), net for the three months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended September 30,		Change	
(in thousands, except percentages)	2015	2014	($)	(%)
Other income (expense):				
Earnings (loss) from equity method investments	$(41)	$5,603	$(5,644)	(101)%
Royalties, related party	3,273	2,275	998	44 %
Interest income	2	14	(12)	(86)%
Interest expense	(1,778)	(1,190)	(588)	49 %
Other	(77)	(9)	(68)	756 %
Total other income (expense), net	$1,379	$6,693	$(5,314)	(79)%

Earnings in equity method investments

The following table details the components of the Company's respective equity method investments included within the Earnings (loss) from equity method investments line item on the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,	
(in thousands)	2015	2014
Earnings from CCS	$—	$6,226
Earnings from CCSS	1,358	892
Loss from RCM6	(1,399)	(1,515)
Earnings from equity method investments	$(41)	$5,603

Earnings in equity method investments, and changes related thereto, are impacted by our three equity method investee's, CCS, CCSS and RCM6. Earnings in equity method investments decreased due to decreases in cash distributions in excess of our investment balance from CCS during the three months ended September 30, 2015 as compared to the comparable period in 2014.

During the three months ended September 30, 2015 we received no distributions from CCS and therefore recognized zero in equity income from CCS, compared to our proportionate share of CCS's net income of $8.1 million for the period. During the three months ended September 30, 2014, we received distributions of $6.2 million from CCS and recognized $6.2 million in equity income from CCS, compared to our proportionate share of CCS's net income of $7.8 million for the period. The difference between our pro-rata share of CCS's net income (loss) and our earnings from our CCS equity method investment as reported on our Condensed Consolidated Statements of Operations relates to the Company receiving distributions in excess of the carrying value of the investment during prior periods, and therefore recognizing such excess distributions as equity method earnings in the period the distributions occur. If CCS subsequently reports net income, the Company will not record its pro-rata share of such net income until its cumulative share of pro-rata net income equals the amount of its cumulative income recognized due to cash being distributed. Until such time, the Company will only report income from CCS to the extent of cash distributions. See additional information related to the Company's investment balance, equity earnings and cash distributions in Note 4 of the Condensed Consolidated Financial Statements.,

Due to the cash flows from invested RC facilities being used to operating retained RC facilities, CCS distributed $0.0 million to the Company, which is included in our equity method earnings for the three months ended September 30, 2015 compared to distributions and earnings of $6.2 million for the three months ended September 30, 2014. This decrease is due primarily to the increased working capital needs of CCS to operate retained RC facilities and other operating expenses.

As of September 30, 2015 and 2014, the number of invested RC facilities that were generating rental income was twelve and ten, respectively. The number of retained RC facilities that were generating Internal Revenue Code Section 45 tax credits ("PTCs") and other tax benefits as of September 30, 2015 and 2014, were five and six, respectively.

Equity earnings from our interest in CCSS increased by $0.5 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014, primarily due to an increase in the number of RC facilities being

38

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operated by CCSS. The weighted-average number of RC facilities for which CCSS had operating and maintenance agreements in place, based upon the number of months each facility was operated during the respective years, increased year over year. As of September 30, 2015 and 2014, CCSS had operating and maintenance agreements in place with 17 and 16 RC facilities, respectively. CCSS derives earnings both from fixed-fee arrangements as well as fees that are tied to actual RC production, depending upon the specific RC facility operating and maintenance agreement.

During February 2014, we purchased a membership interest in RCM6 and recognized equity method losses resulting from the operation of the RC facility owned by RCM6, which generated tax credits and tax benefits available to us. Equity losses from our interest in RCM6 decreased by $0.1 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014, due to a decrease in the RC production by RCM6.

On March 3, 2016, the Company sold its 24.95% membership interest in RCM6 for a cash payment of $1.8 million and assumption of the outstanding note payable made by the Company in connection with its purchase of RCM6 membership interests from CCS in February 2014. As a result of the sale, the Company is no longer a member of RCM6 and is no longer subject to any quarterly capital calls and variable payments to RCM6.

Although all of our deferred tax assets have a full valuation allowance recorded against them as of September 30, 2015 and 2014, respectively, we earned the following tax credits which may be available for future benefit related to the operation of retained RC facilities that were not invested:

	Three Months Ended September 30,	
(in thousands)	2015	2014
Section 45 tax credits earned	$12,113	$7,595

Additional information related to our equity method investees is included in Note 4 of the Condensed Consolidated Financial Statements.

Royalties, related party

During the three months ended September 30, 2015 and 2014, there was 7.0 million tons and 4.1 million tons of RC produced using M-45™ and M-45-PC™ technologies, which CCS licenses from us. The increase in tons produced and corresponding increases in Royalties, related party, was due to an increase in the number of RC facilities producing RC with our technologies.

Interest expense

During the three months ended September 30, 2015 and 2014, interest expense increased due to Internal Revenue Code section 453A ("453A"), which requires taxpayers using the installment method to pay an interest charge on the portion of the tax liability that was deferred under the installment method. During the third quarter of 2015, the applicable interest rate related to IRS section 453A increased from 3% to 4%. Our interest expense increased beginning in the fourth quarter of 2015 due to interest payments on the term loan entered into during the fourth quarter of 2015.

Income tax expense

We did not record any federal income tax expense (benefit) during the three months ended September 30, 2015 and 2014 as a result of recording full valuation allowances against all of our net deferred tax assets in all jurisdictions. However, we did record state income tax expense for the three months ended September 30, 2015 and 2014 of $0.0 million and $0.1 million, respectively.

39

Explanation of Responses:

Comparison of the Nine Months Ended September 30, 2015 and 2014

Total Revenue and Cost of Revenue

A summary of the components of our revenue and costs of revenue for the nine months ended September 30, 2015 and 2014 is as follows:

(in thousands, except per share data and percentages)	Nine Months Ended September 30, 2015	2014	Change ($)	(%)
Revenues:				
Equipment sales	$47,439	$9,495	$37,944	400 %
Consulting services	1,349	3,521	(2,172)	(62)%
Chemicals and other	749	214	535	250 %
Total revenues	49,537	13,230	36,307	274 %
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	38,662	6,940	31,722	457 %
Consulting services cost of revenue, exclusive of depreciation and amortization	1,282	1,669	(387)	(23)%
Chemical and other cost of revenue, exclusive of depreciation and amortization	383	108	275	255 %

Equipment sales and Equipment sales cost of revenue

During the nine months ended September 30, 2015 and 2014, we entered into four and 22 long term (6 months or longer) fixed price contracts to supply ACI systems, having aggregate contract values, including associated change orders, of $5.0 million and $36.8 million, respectively. Total value per contract may change due to the relative sizes of ACI systems and the contracts related thereto. During the nine months ended September 30, 2015 and 2014, we completed 28 and 11 ACI systems, recognizing revenues of $43.5 million and $8.7 million and costs of revenue of $32.5 million and $6.3 million, respectively. We did not recognize any loss provisions related to ACI systems contracts during the nine months ended September 30, 2015 and 2014.

During the nine months ended September 30, 2015 and 2014, we entered into one and eight long term (6 months or longer) fixed price contracts to supply DSI systems and other material handling equipment with aggregate contract values including associated change orders of $2.1 million and $9.9 million, respectively. Total value per contract may change due to the relative sizes of DSI systems and the contracts related thereto. During the nine months ended September 30, 2015 and 2014, we completed three and two DSI systems, recognizing revenues of $3.3 million and $0.5 million and costs of revenue of $5.7 million and $0.6 million, respectively. Certain of the DSI long-term fixed price contracts were expected to be completed with losses. As a result, cost of sales included $3.2 million and zero in loss provisions recognized during the nine months ended September 30, 2015 and 2014, respectively, related to DSI contracts. Due to potential cost overruns related to certain DSI projects, we expect that the future relationship between revenues and costs may be dissimilar from prior results.

The remaining changes were due to other equipment sales.

Consulting services and Consulting services cost of revenue

We provided consulting services related to emissions regulations. During the nine months ended September 30, 2015 and 2014, revenues decreased period over period due to a decrease in average contract revenue as well as a decrease in the number of consulting service engagements performed.

Chemical and other

The most significant component of Chemicals and other revenues and costs of revenues were chemical sales related to emissions control technologies. During the nine months ended September 30, 2015 and 2014, revenues increased year

over year due to an increase in average contract revenue. Due to coal-fired power plant requirements to be in compliance with applicable regulations in 2015 and beyond, we anticipated that this will lead to an increase in the market for these products in the future.

Other Operating Expenses

A summary of the components of our other operating expenses, exclusive of costs of revenue (presented above), for the nine months ended September 30, 2015 and 2014 is as follows:

	Nine Months Ended September 30,		Change	
(in thousands, except percentages)	2015	2014	($)	(%)
Operating expenses:				
Payroll and benefits	$19,102	$15,294	$3,808	25 %
Rent and occupancy	1,828	1,784	44	2 %
Legal and professional fees	11,545	7,487	4,058	54 %
General and administrative	4,635	3,981	654	16 %
Research and development, net	5,133	871	4,262	489%
Depreciation and amortization	1,632	1,364	268	20 %
	$43,875	$30,781	$13,094	

Payroll and benefits

Payroll and benefits expenses increased during the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to restructuring expenses of $8.8 million, including the modification and acceleration of equity awards of $3.1 million during the nine months ended September 30, 2015 with certain executive officers and employees impacted by management's alignment of the business with strategic objectives. This increase is offset by restructuring expenses of $2.0 million during the nine months ended September 30, 2014 and a decrease in executive and overall head count period over period.

Rent and occupancy

Rent and occupancy expenses increased during the nine months ended September 30, 2015 due to normal cost increases.

Legal and professional fees

Legal and professional fees expenses increased during the nine months ended September 30, 2015 compared to the same period in 2014 as a result of the significant professional resources deployed to address the Restatement of our consolidated financial statements, including the ongoing SEC Inquiry. We began incurring such costs at the end of the second quarter of 2014. Expenses related to the Restatement during the nine months ended September 30, 2015 and 2014 were $7.1 million and $3.7 million respectively. Other increases in expenses related to general business activities.

General and administrative

General and administrative expense increased during the nine months ended September 30, 2015 compared to the same period in 2014 due to an increase in insurance expense partially offset by a decrease in general operating expenses, specifically recruiting and travel expenses.

Research and development, net

Research and development expense increased during the nine months ended September 30, 2015 compared to the same period in 2014 due to expenses incurred related to ADA Analytics of $2.5 million, including $1.9 million impairment charge. Additionally increases included expenses paid to an independent third party to develop cooling technology related to liquefied natural gas, which has subsequently been terminated, and net DOE costs.

Depreciation and amortization

Depreciation and amortization expense increased during the nine months ended September 30, 2015 compared to the same period in 2014 due to amortization of the Highview technology license and asset additions.

41

Other Income (Expense), net

A summary of the components of our other income (expense), net for the nine months ended September 30, 2015 and 2014 is as follows:

(in thousands, except percentages)	Nine Months Ended September 30,		Change	
	2015	2014	($)	(%)
Other income (expense):				
Earnings (loss) from equity method investments	$5,133	$22,019	$(16,886)	(77)%
Royalties, related party	7,767	4,255	3,512	83 %
Interest income	20	61	(41)	(67)%
Interest expense	(5,347)	(3,202)	(2,145)	67 %
Other	10	—	10	*
Total other income (expense), net	$7,583	$23,133	$(15,550)	

* Calculation not meaningful

Earnings in equity method investments

The following table details the components of the Company's respective equity method investments included within the Earnings (loss) from equity method investments line item on the Condensed Consolidated Statements of Operations:

(in thousands)	Nine Months Ended September 30,	
	2015	2014
Earnings from CCS	$4,730	$22,547
Earnings from CCSS	3,530	2,529
Loss from RCM6	(3,127)	(3,057)
Earnings from equity method investments	$5,133	$22,019

Earnings in equity method investments, and changes related thereto, are impacted by our three equity method investee's, CCS, CCSS and RCM6. Earnings in equity method investments decreased primarily due to decreases in cash distributions in excess of our investment balance from CCS during the nine months ended September 30, 2015 as compared to the comparable period in 2014.

During the nine months ended September 30, 2015 we received distributions of $4.7 million and recognized $4.7 million in equity income from CCS, compared to our proportionate share of CCS's net income of $25.8 million for the period. During the nine months ended September 30, 2014, we received distributions of $22.5 million and recognized $22.5 million in equity income from CCS, compared to our proportionate share of CCS's net income of $17.6 million for the period. The difference between our pro-rata share of CCS's net income (loss) and our earnings from our CCS equity method investment as reported on our Condensed Consolidated Statements of Operations relates to the Company receiving distributions in excess of the carrying value of the investment during prior periods, and therefore recognizing such excess distributions as equity method earnings in the period the distributions occur. If CCS subsequently reports net income, the Company will not record its pro-rata share of such net income until its cumulative share of pro-rata net income equals the amount of its cumulative income recognized due to cash being distributed. Until such time, the Company will only report income from CCS to the extent of cash distributions. See additional information related to the Company's investment balance, equity earnings and cash distributions in Note 4 of the Condensed Consolidated Financial Statements.

The substantial decrease in distributions from CCS is due primarily to the increased working capital needs of CCS to operate retained RC facilities, fund capital costs associated with the on-site installation of certain RC facilities and other operating expenses.

Equity earnings from our interest in CCSS increased by $1.0 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to an increase in the number of RC facilities being operated by CCSS. The weighted-average number of RC facilities for which CCSS had operating and maintenance agreements in place, based upon the number of months each facility was operated during the respective years, increased year over year. As of September 30, 2015 and 2014, CCSS had operating and maintenance agreements in place with 17 and 16 RC facilities, respectively. CCSS derives earnings both from fixed-fee arrangements as well as fees that are tied to actual RC production, depending upon the specific RC facility operating and maintenance agreement.

During February 2014, we purchased a membership interest in RCM6 and recognized equity method losses resulting from the operation of the RC facility owned by RCM6, which generated tax credits and tax benefits available to us. Equity losses from our interest in RCM6 increased by $0.1 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, as the Company purchased its membership interest in RCM6 during February 2014 compared to nine-months of ownership in 2015.

On March 3, 2016, the Company sold its 24.95% membership interest in RCM6 for a cash payment of $1.8 million and assumption of the outstanding note payable made by the Company in connection with its purchase of RCM6 membership interests from CCS in February 2014. As a result of the sale, the Company is no longer a member of RCM6 and is no longer subject to any quarterly capital calls and variable payments to RCM6.

Although all of our deferred tax assets have full valuation allowances recorded against them as of September 30, 2015 and 2014, respectively, we earned the following tax credits which may be available for future benefit related to the operation of retained RC facilities:

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Section 45 tax credits earned	$29,502	$18,164

Royalties, related party

During the nine months ended September 30, 2015 and 2014 there were 16.1 million tons and 8.4 million tons of RC produced using M-45™ and M-45-PC™ technologies, which CCS licenses from us. The increase was due to an increase in the number of RC facilities producing RC with our technologies.

Interest expense

During the nine months ended September 30, 2015 and 2014, interest expense increased due to IRS section 453A, which requires taxpayers using the installment method to pay an interest charge on the portion of the tax liability that was deferred under the installment method. During the third quarter of 2015, the applicable interest rate related to IRS section 453A increased from 3% to 4%. Additionally, interest expense increased due to the RCM6 note payable used to finance our purchase of RCM6 in February 2014. These increases were $1.9 million and $0.2 million, respectively.

Income tax expense

We did not recognize any federal income tax expense (benefit) during the nine months ended September 30, 2015 and 2014 as a result of recording full valuation allowances against all of our net deferred tax assets. However, we did recognize state income tax expense for the nine months ended September 30, 2015 and 2014 of $0.2 million and $0.2 million, respectively.

Business Segments

As discussed in Note 11 of the Condensed Consolidated Financial Statements, we have four reportable segments: (1) RC; (2) EC - ETS; (3) EC - Manufacturing; and (4) R&D. The business segment measurements are computed in accordance with the principles listed below:

- The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except as described below.
- Segment revenue includes the Company's equity method earnings and losses from the Company's equity method investments. Segment revenue also includes the Company's royalty earnings from CCS.
- Segment operating income (loss) includes the Company's equity method earnings and losses from the Company's equity method investments and royalty earnings from CCS. However, segment operating income (loss) excludes

Payroll and benefits, Rent and occupancy, Legal and professional fees, and General and administrative ("Corporate general and administrative expenses") unless otherwise specifically included as the Company does not allocate those amounts between segments.

- Segment revenue includes Research and Development reimbursements.
- Items not included in operating income are excluded from segment reporting except for 453A and RCM6 interest expense, which is directly attributable to our RC segment.

43

The principal products and services of our segments are:

1. RC - Our RC segment derives its earnings from equity method investments as well as royalty payment streams and other revenues related to enhanced combustion of and reduced emissions of both NO_X and mercury from the burning of coals. The Company's equity method investments related to the RC segment include CCS, CCSS and RCM6. Segment revenues include the Company's equity method earnings and losses from the Company's equity method investments and royalty earnings from CCS. These earnings are included within the Earnings (loss) from equity method investments and Royalties, related party line items in the Condensed Consolidated Statements of Operations.
2. EC - ETS - Our EC - ETS segment includes revenues and related expenses from the sale of ACI equipment systems, consulting services and chemical and other sales related to the reduction of emissions in the coal-fired electric generation process. The fabrication of ACI systems is largely dependent upon third party manufacturers. These amounts are included within the respective revenue and cost of sales line items in the Condensed Consolidated Statements of Operations.
3. EC - Manufacturing - Our EC - Manufacturing segments includes revenues and related expenses from the sale of DSI equipment systems, consulting services and other sales related to the reduction of emissions in the electric utility industry. We fabricated DSI systems through our subsidiary BCSI through December 2015. These amounts are included within the respective revenue and cost of sales line items in the Condensed Consolidated Statements of Operations.
4. R&D - Our R&D segment focuses on the research and development of technologies through internal funds, and contracts supported by the DOE and industry participants. The contracts with the DOE take the form of grants or cooperative agreements and are considered financial assistance awards. Segment revenues include the reimbursements received from the DOE and industry participants as well as any revenues from third parties that engage the Company for R&D consulting services. These reimbursements are included as contra expense within the Research and development, net line item in the Condensed Consolidated Statements of Operations.

Management uses segment operating income (loss) to measure profitability and performance at the segment level. Management believes segment operating income (loss) provides investors with a useful measure of our operating performance and underlying trends of the businesses. Segment operating income (loss) may not be indicative of our overall consolidated performance and therefore, should be read in conjunction with our consolidated results of operations.

The following table presents the Company's operating segment results for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Revenues:				
Refined Coal:				
Earnings in equity method investments	$(41)	$5,603	$5,133	$22,019
Consulting services	—	160	55	596
Royalties	3,273	2,275	7,767	4,255
	3,232	8,038	12,955	26,870
Emissions Control - Engineering Technology and Services:				
Equipment sales	8,787	7,139	44,046	8,893
Consulting services	664	850	1,255	1,856
Chemical and other	132	77	749	214
	9,583	8,066	46,050	10,963
Emissions Control - Manufacturing:				
Equipment sales	3,302	356	3,394	601
Consulting services	—	490	38	1,070
	3,302	846	3,432	1,671
Research and Development:	859	612	1,271	1,550
	859	612	1,271	1,550
Total segment reporting revenues	$16,976	$17,562	$63,708	$41,054
Adjustments to reconcile to reported revenues:				
Refined Coal:				
Earnings in equity method investments	$41	$(5,603)	$(5,133)	$(22,019)
Royalties	(3,273)	(2,275)	(7,767)	(4,255)
	(3,232)	(7,878)	(12,900)	(26,274)
Research and Development:	(859)	(612)	(1,271)	(1,550)
Total reported revenues	$12,885	$9,072	$49,537	$13,230
Segment reporting operating income (loss)				
Refined Coal	$1,458	$6,491	$7,294	$22,406
Emissions Control - Engineering Technology Services	1,394	(72)	5,839	(1,997)
Emissions Control - Manufacturing	(2,402)	(1,539)	(7,772)	(3,535)
Research and Development	(2,416)	(382)	(6,400)	(1,181)
Total segment operating income (loss)	$(1,966)	$4,498	$(1,039)	$15,693

RC

The following table details the segment revenues of the Company's respective equity method investments:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Earnings from CCS	$—	$6,226	$4,730	$22,547
Earnings from CCSS	1,358	892	3,530	2,529
Loss from RCM6	(1,399)	(1,515)	(3,127)	(3,057)
Earnings from equity method investments	$(41)	$5,603	$5,133	$22,019

Earnings in equity method investments decreased during the three and nine months ended September 30, 2015 compared to 2014 due to decreases in cash distributions from CCS and three and nine months of losses from RCM6 in 2015 whereas RCM6 was purchased in February 2014.

Additional discussion of our equity method investments is included above within our consolidated results and in Note 4 of the Consolidated Financial Statements.

During the three and nine months ended September 30, 2015 and 2014, there was 7.0 million, 4.1 million, 16.1 million and 8.4 million tons, respectively, of RC produced RC facilities using M-45™ and M-45-PC™ technologies, which CCS licensed from us beginning in July 2012. Changes in tons produced were driven by increases in the number of RC facilities using the M-45™ and M-45-PC™ technologies.

Segment operating income (loss) decreased during the three months ended September 30, 2015 compared to 2014 due to a decrease in revenue, driven by the decrease in cash distributions from CCS, offset by an increase in CCSS earnings of $0.5 million and Royalties related to CCS's use of our M-45 License of $0.6 million.

Segment operating income (loss) decreased during the nine months ended September 30, 2015 compared to 2014 due to the decrease in revenue, driven by the decrease in cash distributions from CCS, offset by an increase in CCSS earnings of $1.0 million and Royalties related to CCS's use of our M-45 License of $1.8 million.

EC - ETS

During the three months ended September 30, 2015 compared to 2014, revenues increased due to the revenue recognized on contracts completed during the respective periods. We recognized revenues of $8.5 million and $7.1 million and costs of revenue of $6.0 million and $5.4 million, respectively. We did not recognize any loss provisions related to contracts during the three months ended September 30, 2015 and 2014 related to ACI systems.

During the nine months ended September 30, 2015 compared to 2014, revenues increased due to an increase in contracts completed. We recognized revenues of $43.5 million and $8.7 million and costs of revenue of $32.5 million and $6.3 million, respectively. We did not recognize any loss provisions related to ACI systems contracts during the nine months ended September 30, 2015 and 2014.

We provided consulting services related to emissions regulations. During the three months ended September 30, 2015 and 2014, revenues decreased period over period due to a decrease in average contract revenue as well as a decrease in the number of consulting service engagements performed.

During the nine months ended September 30, 2015 and 2014, consulting service revenues decreased period over period due to did not change in average contract revenue and a decrease in the number of consulting service

engagements performed.

The most significant component of Chemicals and other revenues and costs of revenues were chemical sales related to emissions control technologies. During the three months ended September 30, 2015 and 2014, revenues increased slightly year over year due to an increase in average contract revenue. Due to coal-fired power plant requirements to be in compliance with applicable regulations in 2015 and beyond, we believe this will lead to an increase in the market for these products in the future.

As a result of the increase in revenue during the three months ended September 30, 2015 compared to 2014, segment operating income increased, despite offsetting increases in costs of sales, payroll and benefits, and other costs.

Segment operating income increased during the nine months ended September 30, 2015 compared to 2014, due to an increase in the number of contracts completed during the period.

EC - Manufacturing
During the three months ended September 30, 2015 compared to 2014, revenues increased due to an increase in contracts completed. We recognized revenues of $3.3 million and $0.3 million and costs of revenue of $3.8 million and $0.2 million, respectively. Due to potential cost overruns related to certain DSI projects, the Company expects that the future relationship between revenues and costs may be dissimilar from prior results. Cost of sales were impacted year over year due to $1.2 million and zero in loss provisions related to DSI contracts that were recognized during the three months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015 and 2014, revenues increased due to an increase in contracts completed. The Company recognized revenues of $3.3 million and $0.5 million and costs of revenue of $5.7 million and $0.6 million, respectively. Due to potential cost overruns related to certain DSI projects, we expect that the future relationship between revenues and costs may be dissimilar from prior results. Cost of sales were impacted year over year due to $3.2 million and zero in loss provisions recognized during the nine months ended September 30, 2015 and 2014, respectively, related to DSI contracts

We provided consulting services related to emissions regulations. During the three months ended September 30, 2015 and 2014, revenues decreased period over period as no consulting services were performed during the three months ended September 30, 2015.

During the nine months ended September 30, 2015 and 2014, consulting services revenues decreased period over period due to a decrease in average contract revenue and a decrease in the number of consulting service engagements performed.

Despite the increase in revenue during the three months ended September 30, 2015 compared to 2014, segment operating loss increased due to increases in costs of sales, including loss contract provisions, payroll and benefits, and other costs.

Despite the decrease in revenues and increases in cost of sales, including loss contract provisions, payroll and benefits, and other costs resulted in an increase of segment operating loss increased during the nine months ended September 30, 2015 compared to 2014.

R&D
Research and development expense increased during the three months ended September 30, 2015 compared to 2014 primarily due to impairment charges of $1.9 million related to ADA Analytics, LLC. This increase was offset by an increase in reimbursable expenses from the DOE and industry cost share partners.

Research and development expense increased during the nine months ended September 30, 2015 compared to 2014 due to expenses incurred related to ADA Analytics of $2.5 million, including $1.9 million impairment charge. Additionally increases included expenses paid to an independent third party to develop cooling technology related to liquefied natural gas, which has subsequently been terminated and net DOE costs.

Segment operating loss increased during the three months ended September 30, 2015 compared to 2014, due to impairment charges recognized during the period.

Segment operating loss increased during the nine months ended September 30, 2015 compared to 2014, due to additional costs spent on R&D related projects including ADA Analytics and development of cooling technology as well as impairment charges recognized.

Other matters

During the fourth quarter of 2015 the Company realigned its operating segments into two reportable segments: (1) Refined Coal ("RC"); and (2) Emissions Control ("EC"). During 2016, the Company will retroactively adjust all quarterly segment related disclosures in its Quarterly Reports on Form 10-Q for the three months ended March 31, 2016 and the three months ending June 30 and September 30, 2016.

47

Liquidity and Capital Resources

Overview of Factors Affecting Our Liquidity

During the nine months ended September 30, 2015, our working capital and cash balances continued to decline, consistent with such balances also declining in the previous six-month period in 2015, due principally to continued losses. Such losses were driven primarily by poor operating performance within our EC - Manufacturing segment, substantial and continuing expenditures required to fund the Restatement activities, and a significant reduction in the receipt of cash distributions from CCS, including no cash distributions during the third quarter. This deterioration of working capital directly necessitated the securing of the loan transaction described below. The Company expects that pressure on its working capital will continue until such time as all Restatement activities are completed, including resolution of the SEC Inquiry and the conclusion of the private litigation described in Note 8 to the Condensed Consolidated Financial Statements.

Our principal sources of liquidity include:

- cash on hand;
- distributions from CCS and CCSS;
- royalty payments from CCS; and
- proceeds from the securing of debt facilities, such as the $15 million term loan obtained in October 2015, as described below.

Since April 2014, we have been unable to borrow from our bank line of credit as a result of not being in compliance with certain covenants related to our loan agreement. No borrowings were outstanding as of September 30, 2015 or December 31, 2014. Prior to June 2014, the bank line of credit was used primarily to provide collateral support for certain Letters of Credit that had been issued to customers related to certain contractual performance and payment guarantees, typically provided in lieu of surety bonds. Upon notification of such covenant non-compliance, we were required to secure such letters of credit with cash collateral. Additionally, we are required to provide collateral to other financial institutions that have issued letters of credit providing security for continuing royalty indemnification obligations related to the settlement of certain litigation. The collateral amounts are disclosed on our Condensed Consolidated Balance Sheets as Restricted cash, Restricted cash, long-term and Investment securities, restricted, long-term. As of September 30, 2015 and December 31, 2014, these collateral amounts totaled $12.0 million and $11.6 million, respectively.

Our bank line of credit has been amended six times (December 2, 2013, April 3, 2014, September 20, 2014, December 15, 2014, May 29, 2015 and September 30, 2015), most notably to extend the maturity date. The lender has also provided seven waivers relating to various transactions and obligations to provide financial information to the lender. As amended, the Line of Credit is available until May 31, 2016. No amounts were drawn on the line of credit during the nine months ended September 30, 2015 and 2014, respectively.

Our primary uses of liquidity during the nine months ended September 30, 2015, in addition to the restricted cash assets described above, include costs and expenses related to completing the Restatement of prior year financial statements, including litigation and other expenses related thereto; delivering on our existing contracts and customer commitments; our corporate restructuring and realignment of its businesses. Additional uses of liquidity include 453A interest payments, capital calls related to RCM6 to fund operating expenses, royalty indemnification payments, interest expense on the Company’s notes payable, capital expenditures and research and development costs. During the first quarter of 2015, we used $2.1 million in cash resources to acquire certain assets of InSyst Ltd. and ClearView Monitoring Solutions Ltd.

On October 22, 2015, we entered into a credit agreement for a $15.0 million term loan, with Franklin Mutual Quest Fund and MFP Investors LLC (the "Lenders"), and Wilmington Trust, National Association, as the administrative agent and collateral agent (the “Credit Agreement”), which was subsequently amended in 2016 as discussed below. Under the original terms and conditions, the Credit Agreement matured on April 22, 2016, subject to a three month extension at the Company's option to the extent certain conditions are met. The Credit Agreement bears interest at an annual rate equal to 10.5% and is subject to various prepayment and other premiums if certain events, including a change in control, occur. Upon closing, we received net proceeds of $13.9 million and recorded debt discounts and debt issuance costs of $1.5 million. The debt discounts and debt issuance costs will be amortized to interest expense

using the effective interest method over the life of the Credit Agreement. The net proceeds received are being used to fund our working capital needs and general operating purposes. The Credit Agreement may become due prior to maturity based on certain customary events requiring mandatory prepayment, including upon certain asset sales or receipts of certain types of cash proceeds outside the ordinary course of business, upon a change of control, and upon a default.

On February 8, 2016, the Company entered into the first amendment to the Credit Agreement ("First Amendment") that extended the 2015 SEC filings date to March 30, 2016. On March 30, 2016, the Company entered into the second amendment to the Credit Agreement ("Second Amendment"). The Second Amendment extended the maturity date to July 8, 2016, extended the Company's filing date deadline related to its 2015 SEC filings to April 20, 2016, increased the stated interest rate from

48

10.5% to 15.0% and increased the minimum cash balance requirement from $3.0 million to $3.5 million. The Company incurred approximately $0.6 million in fees related to the Second Amendment.
In February 2016, the Company entered into an agreement with the DSI Business Owner to settle the remaining amounts owed as of the date of the agreement of approximately $1.1 million for $0.3 million, which was paid in the first quarter of 2016.
On March 3, 2016, the Company sold its entire ownership interest in RCM6. The Company received a cash payment of $1.8 million related to the sale and has no future obligations related to previously recorded notes payable.
Our ability to generate sufficient cash flow required to meet ongoing operational needs and to meet our obligations, including the repayment of the loan under the Credit Agreement, depends upon several factors, including executing on our contracts and initiatives, discussed above, receiving royalty payments from CCS and distributions from CCS and CCSS, and our ability to maintain a significant share of the market and increase operational efficiencies for emissions control equipment, chemicals and services. 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 and/or repay our loan when due. Should this be the case, we will seek to refinance the loan or obtain alternative financing. If we are unable to refinance the loan or obtain alternative financing, our lenders would be entitled to take possession of the collateral securing the indebtedness, which includes substantially all of our assets, to the extent permitted by the Credit Agreement and applicable law.
Sources and Uses of Cash
Nine Months Ended September 30, 2015 vs. Nine Months Ended September 30, 2014
Cash and cash equivalents decreased from $25.2 million as of December 31, 2014 to $8.6 million as of September 30, 2015. The following table summarizes our cash flows for the nine months ended September 30, 2015 and 2014, respectively:

	Nine Months Ended September 30,		
(in thousands)	2015	2014	Change
Cash provided by (used in):			
Operating activities	$(13,640)	$(30,831)	$17,191
Investing activities	(1,514)	15,463	(16,977)
Financing activities	(1,442)	(1,055)	(387)
Net change in cash and cash equivalents	$(16,596)	$(16,423)	$(173)

Cash flow from operating activities
Cash flows used in operating activities reflect operating losses as well as the timing of our working capital requirements, in addition to other items discussed herein.
Our cash spend for legal and professional fees for the nine months ended September 30, 2015 increased from that of the comparable prior year period, primarily due to our efforts related to the Restatement process and SEC Inquiry, causing an increase in cash outflows of $3.3 million, and consulting fees paid to a former consultant for RC technology.
Deferred revenue and project costs resulted in a change in cash provided by operating cash flows on a net basis of $2.2 million due to production of ACI and DSI equipment systems. However, due to the completed contract revenue recognition method, these billings and related costs have not yet been recognized within revenues and cost of sales, respectively.
We are required to provide collateral for certain letters of credit for ACI and DSI equipment, as discussed in Note 8 of the our Condensed Consolidated Financial Statements. Cash is pledged as security for letters of credit in the same amount as the assets. During the nine months ended September 30, 2015 the Company completed certain ACI and DSI equipment contracts which resulted in no longer needing to collateralize letters of credit. During the nine months ended September 30, 2014 the Company used cash to collateralize letters of credit for ACI and DSI equipment contracts.

Settlement and royalty indemnification obligation payments relate to the payment of litigation matters discussed in Note 8 of the consolidated financial statements. These payments will continue through the third quarter of 2018 and will increase or decrease based upon the sale of activated carbon by a third party.
Our operating cash flow may also be significantly impacted by distributions from our equity investees which are classified as either a return on investment within operating cash flows or a return in excess of investment basis within investing cash flows. During the nine months ended September 30, 2015, we received $17.8 million less in total cash distributions from equity method investees than we did during the nine months ended September 30, 2014.

Cash flow from investing activities
Purchase and maturity of investments in securities, restricted and Increase in restricted cash
We are required to provide collateral for certain letters of credit for future payments related to royalty indemnification obligation and other payments as discussed in Note 8 of our Condensed Consolidated Financial Statements. Investment securities and cash are pledged as security for letters of credit in the same amount as the investments. The restricted investments and cash increased during the nine months ended September 30, 2015 due to a contractual requirement related to the royalty indemnification obligation.
Acquisition of property and equipment
Acquisitions of property and equipment were $0.4 million and $1.2 million during the nine months ended September 30, 2015 and September 30, 2014, respectively. Investing cash flows during 2015 were related to equipment and during 2014 related to spend for equipment and leasehold improvements.
Advance on note receivable
In December 2014, we loaned $0.5 million to an independent third party to provide financing to for the pursuit of emissions technology projects, bearing annual interest of 8%. Interest and principal were payable at maturity of the agreement in June 2015. In March 2015, we loaned an additional $0.5 million to the third party, continuing to bear annual interest at 8%. All interest and principal payments were then deferred until March 2018. Subsequent to the second loan disbursement, it was determined that the independent third party was not awarded contracts, which would have utilized their emissions technology. Without these contracts, we concluded that the ability of the independent third party to repay these loans was in doubt. We have recorded an allowance against the entire principal balance of the note receivable outstanding, reversed accrued interest and put the two respective portions of the note on non-accrual status as of December 31, 2014 and September 30, 2015, respectively.
Acquisition of a business
During March 2015, we acquired Clearview, which operated as ADA Analytics, for $2.4 million, as described in Note 3 of the Condensed Consolidated Financial Statements, $2.1 million of which was paid in 2015. The Company acquired the in-process research and development in order to potentially commercialize and expand its analytics services available to customers. However, in August 2015, as part of a broader strategic restructuring of our business to simplify our 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.
Equity method and cost method investments
On February 10, 2014, we purchased a 24.95% membership interest in RCM6, which owns a single RC facility that produces RC that qualifies for Section 45 tax credits. Total consideration given included a cash payment of $2.4 million and the execution of a $13.3 million note payable. In addition, we are 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. Due to the difference of the stated rate and the effective rate, the note payable is periodically negatively amortizing and is carried at a discount of $14.4 million and $14.2 million, respectively, as of September 30, 2015 and December 31, 2014. During the nine months ended September 30, 2015 and 2014, we funded capital calls and made variable payments of $1.1 million and $2.7 million, respectively.
As discussed within the Results of Operations and the operating cash flow activities above, our investing cash flow may also be significantly impacted by the classification of cash distributions from equity method investees as either a return on investment within operating cash flows or a return in excess of investment basis within investing cash flows. During the nine months ended September 30, 2015, there was a decrease in distributions from equity method investments within the investing section due to a decrease in period over period distributions in excess of cumulative earnings from CCS.

Cash flow from financing activities
Notes payable activity

During the nine months ended September 30, 2015 and 2014 we used $1.2 million and zero cash, respectively, for repayments of principal on the RCM6 and DSI Business Owner notes payable, as described in Note 6 of our Condensed Consolidated Financial Statements. Principal payments increased period over period as the Company did not purchase RCM6 until the first quarter of 2014 and no payments during the nine-months ended September 30, 2014 were applied to the principal balance. Additionally, the Company did not terminate its consulting agreement with the DSI Business Owner until December 31, 2014, at which time the Company recorded a note payable for remaining amounts owed.

50

Equity award activity

During the nine months ended September 30, 2015 and 2014 we used $0.3 million and $1.3 million, respectively, for the repurchase of shares to satisfy minimum tax withholdings upon the vesting of equity based awards. Additionally, during the same periods, we received zero and $0.2 million of proceeds related to the exercise of options.

Significant non-cash transactions

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Restricted stock award reclassification (equity to liability)	$ —	$ 501
Issuance of common stock to settle liabilities	—	127
Acquisition of equity method investment through note payable	—	13,301

Contractual Obligations

During the nine months ended September 30, 2015, there were no material changes to our contractual obligations outside of the ordinary course of business. As noted above, we entered into the $15.0 million Credit Agreement on October 22, 2015. Additionally, in March 2016 we sold our 24.95% interest in RCM6 and thus will have no further obligations related to the outstanding note payable to CCS. For further discussion, refer to Note 6 of our Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report.

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2015, we did not engage in any off-balance sheet arrangements except those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which included operating leases, letters of credit and future 453A interest obligations.

Critical Accounting Policies and Estimates

Our significant accounting policies and estimates have not changed from those reported in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

New Accounting Guidance

Refer to Note 1 of our Condensed Consolidated Financial Statements, included in Item 1 of this Quarterly Report for new accounting guidance issued during the nine months ended September 30, 2015 and subsequent thereto through the date of this filing.

Forward-Looking Statements Found in this Report

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, that involve risks and uncertainties. In particular such forward-looking statements are found in this Part I and under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation" in Part II, Item 7 below. Words or phrases such as "anticipates," "believes," "expects," "intends," "plans," "estimates," "predicts," the negative expressi such words, or similar expressions are used in this Report to identify forward-looking statements, and such forward-looking statements include, but are not limited to, statements or expectations regarding:

(a) the scope and impact of mercury and other regulations or pollution control requirements, including the impact of the final Mercury and Air Toxics Standards ("MATS");
(b) the production of RC will qualify for IRC Section 45 tax credits in conjunction with the production of RC;
(c) expected growth in and potential size of our target markets;
(d) expected supply and demand for our products and services;
(e) increasing competition in the emission control market;
(f) future levels of research and development activities;

(g) the effectiveness of our technologies and the benefits they provide;

51

(h) CCS's ability to profitably sell and/or lease additional RC facilities or recognize the tax benefits from their operations;
(i) probability of any loss occurring with respect to CCS Party Guarantees;
(j) the timing of awards of, and work and related testing under, our contracts and agreements and their value;
(k) timing and amounts of or changes in future revenues, backlog, funding for our business and projects, margins, expenses, earnings, tax rate, cash flow, royalty payments, working capital, liquidity and other financial and accounting measures;
(l) ability to refinance the loan under the Credit Agreement or obtain alternative financing;
(m) the outcome of current and pending legal proceedings;
(n) awards of patents designed to protect our proprietary technologies both in the U.S. and abroad;
(o) the materiality of any future adjustments to previously recorded reimbursements as a result of DOE audits and the amount of contributions from the DOE and others towards planned project construction and demonstrations; and
(p) whether any legal challenges or Environmental Protection Agency actions will have a material impact on the implementation of the MATS or other regulations and on our ongoing business.

Our expectations are based on certain assumptions, including without limitation, that:

(a) coal will continue to be a major source of fuel for electrical generation in the United States;
(b) the IRS will allow the production of RC to qualify for IRC Section 45 tax credits;
(c) contracts we have with the DOE will continue to be funded at expected levels and we will be chosen to participate in additional contracts of a similar nature;
(d) we will continue as a key supplier of equipment, chemicals and services to the coal-fired power generation industry as it seeks to implement reduction of mercury emissions;
(e) current environmental laws and regulations requiring reduction of mercury from coal-fired boiler flue gases will not be materially weakened or repealed by courts or legislation in the future;
(f) we will be able to meet any performance guaranties we make and continue meet our other obligations under contracts;
(g) we will be able to obtain adequate capital and personnel resources to meet our operating needs and to fund anticipated growth and our indemnity obligations;
(h) we will be able to establish and retain key business relationships with other companies;
(i) orders we anticipate receiving will in fact be received;
(j) governmental audits of our costs incurred under DOE contracts will not result in material adjustments to amounts we have previously received under those contracts;
(k) we will be able to formulate new chemicals and blends that will be useful to, and accepted by, the coal-fired boiler power generation business;
(l) we will be able to effectively compete against others;
(m) we will be able to meet any technical requirements of projects we undertake;
(n) CCS will be able to sell or lease the remaining RC facilities to third party investors; and
(o) we will be able to utilize our portion of the Section 45 tax credits generated by operation of RC facilities for the benefit of the members of CCS.

The forward-looking statements included in this Quarterly Report involve risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors including, but not limited to, timing of new and pending regulations and any legal challenges to or extensions of compliance dates of them; the government's failure to promulgate regulations or appropriate funds that benefit our business; changes in laws and regulations, accounting rules, prices, economic conditions and market demand; impact of competition; availability, cost of and demand for alternative energy sources and other technologies; technical, start up and operational difficulties; failure of the RC facilities to produce coal that qualifies for tax credits; termination of or amendments to the contracts for RC facilities; decreases in the production of RC; inability to commercialize our

technologies on favorable terms; our inability to ramp up our operations to effectively address recent and expected growth in our business; loss of key personnel; potential claims from any terminated employees, customers or vendors; failure to satisfy performance guarantees; availability of materials and equipment for our businesses; intellectual property infringement claims from third parties; pending litigation; elevated spending on non-recurring cash expenses, which may last longer than expected or reductions in operating costs may be less than expected; identification of additional material weaknesses or significant deficiencies; as well as other factors relating to our business, as described in our filings with the SEC, with particular emphasis on the risk factor disclosures contained in those filings and in Item 1A of this Quarterly Report. Readers are cautioned not to place undue reliance on the forward-looking statements made in this Quarterly Report and to consult filings we have made and will make with the SEC for additional discussion concerning risks and uncertainties that may apply to our business and the ownership of our securities. The forward-looking statements contained in this Quarterly Report are presented as of the date hereof, and we disclaim any duty to update such statements unless required by law to do so.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
Interest Rate Risk
The Company is most significantly exposed to interest rate risk related to its obligations to pay 453A interest to the IRS. Additionally, the Company is currently exposed to interest rate risk related to cash equivalents and restricted cash subject to variable interest rates. There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, except for an increase in the applicable 453A interest rate from 3.00% to 4.00%, effective in the third quarter of 2015.
Foreign Currency Risk
There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
Commodity Price Risk
There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
The Company has evaluated, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of disclosure controls and procedures as of September 30, 2015. This is done in order to ensure that information the Company is required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.
Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2015, due to the material weaknesses described in "Item 9A. Controls and Procedures" of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
Notwithstanding the material weaknesses, management has concluded that the consolidated financial statements included in this Form 10-Q present fairly, in all material aspects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.
Changes in Internal Control Over Financial Reporting
Under the applicable SEC rules (Exchange Act Rules 13a-15(f)) and 15d-15(f) management is required to evaluate any changes in internal control over financial reporting that occurred during each fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As discussed in Item 9A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, we have undertaken a broad range of remedial procedures to address material weaknesses in our internal control over financial reporting. These remedial procedures continued throughout the three and nine-months ended September 30, 2015 and will continue throughout the remainder of 2015 and during 2016. While we continue to implement remediation efforts and design enhancements to our internal control procedures, we believe there were significant changes in internal controls implemented during the three and nine-months ended September 30, 2015, but the controls were not in place for a sufficient period of time to conclude on the effectiveness of the controls, therefore, further changes may be required.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings
From time to time, the Company is involved in litigation, claims and other proceedings related to the conduct of our business. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. None of these matters, either individually or in the aggregate, currently is material to the Company except those matters reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Annual Report").
Item 1A. Risk Factors
There are no material updates to our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
On July 1, 2015, the non-management directors received grants of an aggregate of 27,587 restricted shares of our common stock for services to be rendered to the Company for the 2015-2016 term pursuant to our Director Compensation Arrangement under the Amended and Restated 2007 Equity Incentive Plan, as amended (the “2007 Plan”).

On July 3, 2015, the Compensation Committee approved the grant of 568 shares of our common stock to an executive officer upon her promotion to Chief Product Officer for services to be rendered to the Company pursuant to our Long Term Incentive Plan under the 2007 Plan.

All issuances of shares described in this Item 2 were exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, as sales of securities that do not involve a public offering or distribution. All recipients were accredited investors at the respective times of the sales of securities. No underwriters were involved, no sales commission or other remuneration was paid and we did not receive any cash proceeds in connection with these issuances.
Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable
Item 5. Other Information
None.

Item 6. Exhibits

Exhibit No.	Description	Form	File No.	Incorporated by Reference Exhibit	Filing Date
10.77	Sixth Amendment and Seventh Waiver to 2013 Loan and Security Agreement by and among ADA-ES, Inc., Advanced Emissions Solutions, Inc., and CoBiz Bank d/b/a Colorado Business Bank in the State of Colorado dated as of September 30, 2015	10-K	000-54992	10.77	February 29, 2016
31.1	Certification of Chief Executive Officer of Advanced Emissions Solutions, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)*				
31.2	Certification of Chief Financial Officer of Advanced Emissions Solutions, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)*				
32.1	Certification of Chief Executive Officer and Chief Financial Officer of Advanced Emissions Solutions, Inc. Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*				
101. INS	XBRL Instance Document				
101.SCH	XBRL Schema Document				
101.CAL	XBRL Calculation Linkbase Document				
101.LAB	XBRL Label Linkbase Document				
101.PRE	XBRL Presentation Linkbase Document				
101.DEF	Taxonomy Extension Definition Linkbase Document				

Notes:
*– Filed herewith.

55

SIGNATURES

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

Advanced Emissions Solutions, Inc.
(Registrant)

April 19, 2016 By: /s/ L. Heath Sampson
L. Heath Sampson
President, Chief Executive Officer and Treasurer
(Principal Executive and Accounting Officer)

April 19, 2016 By: /s/ A. Bradley Gabbard
A. Bradley Gabbard
Chief Financial Officer
(Principal Financial Officer)

56