Advanced Emissions Solutions, Inc.
Form 10-Q
April 19, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
¨TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-54992

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

Delaware	27-5472457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9135 South Ridgeline Boulevard, Suite 200, Highlands Ranch CO,	000-54992
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. (Check one): Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 14, 2016
Common stock, par value $0.001 per share	22,011,494

INDEX

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

(in thousands, except share data)	As of June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$10,413	$ 25,181
Receivables, net	9,218	16,594
Receivables, related parties, net	1,665	1,439
Restricted cash	2,527	2,527
Costs in excess of billings on uncompleted contracts	6,830	6,153
Prepaid expenses and other assets	2,709	2,535
Total current assets	33,362	54,429
Restricted cash, long-term	10,680	8,771
Property and equipment, net of accumulated depreciation of $6,612 and $5,924, respectively	4,076	4,808
Investment securities, restricted, long-term	336	336
Cost method investment	2,776	2,776
Equity method investments	20,238	19,584
Other assets	5,029	2,995
Total Assets	$76,497	$ 93,699
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$10,227	$ 7,514
Accrued payroll and related liabilities	7,329	5,158
Current portion of notes payable, related parties	1,612	1,479
Billings in excess of costs on uncompleted contracts	16,038	22,518
Settlement and royalty indemnity obligation	4,268	3,749
Other current liabilities	8,540	6,739
Total current liabilities	48,014	47,157
Long-term portion of notes payable, related party	13,716	14,431
Settlement and royalty indemnification, long-term	18,282	20,273
Advance deposit, related party	5,028	6,524
Other long-term liabilities	6,053	6,011
Total Liabilities	91,093	94,396
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock: par value of $.001 and no par value per share, respectively, 50,000,000 shares authorized, none outstanding	—	—
Common stock: par value of $.001 per share, 100,000,000 shares authorized, 21,969,795 and 21,853,263 shares issued, and 21,779,721 and 21,643,342 shares outstanding at June 30, 2015 and December 31, 2014, respectively	22	22
Additional paid-in capital	114,849	110,169
Accumulated deficit	(129,467)	(110,888)
Total stockholders' deficit	(14,596)	(697)
Total Liabilities and Stockholders' Deficit	$76,497	$ 93,699

See Notes to the Condensed Consolidated Financial Statements.

1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data and percentages)	2015	2014	2015	2014
Revenues:				
Equipment sales	$14,236	$1,796	$35,351	$1,999
Consulting services	316	1,272	684	2,022
Chemicals and other	343	106	617	137
Total revenues	14,895	3,174	36,652	4,158
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	13,698	1,079	28,749	1,203
Consulting services cost of revenue, exclusive of depreciation and amortization	264	654	690	965
Chemical and other cost of revenue, exclusive of depreciation and amortization	41	20	278	37
Payroll and benefits	9,746	4,609	14,657	8,856
Rent and occupancy	601	558	1,232	1,118
Legal and professional fees	4,387	2,495	8,122	3,927
General and administrative	1,503	1,407	3,385	2,553
Research and development, net	1,860	316	3,110	595
Depreciation and amortization	573	456	1,104	894
Total operating expenses	32,673	11,594	61,327	20,148
Operating loss	(17,778)	(8,420)	(24,675)	(15,990)
Other income (expense):				
Earnings from equity method investments	4,860	9,791	5,174	16,416
Royalties, related party	2,299	849	4,493	1,981
Interest income	6	19	18	46
Interest expense	(1,794)	(1,219)	(3,569)	(2,012)
Other	23	1	87	10
Total other income (expense), net	5,394	9,441	6,203	16,441
Income (loss) before income tax expense	(12,384)	1,021	(18,472)	451
Income tax expense	63	29	107	42
Net income (loss)	$(12,447)	$992	$(18,579)	$409
Earnings (loss) per common share (Note 1):				
Basic	$(0.57)	$0.05	$(0.85)	$0.02
Diluted	$(0.57)	$0.04	$(0.85)	$0.02
Weighted-average number of common shares outstanding:				
Basic	21,715	21,477	21,728	21,487
Diluted	21,715	22,035	21,728	22,092

See Notes to the Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
(in thousands)	2015	2014
Cash flows from operating activities		
Net income (loss)	$(18,579)	$ 409
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,104	894
Amortization of debt issuance costs	50	50
Impairment of property and equipment	46	71
Provision for bad debt expense and note receivable	511	—
Interest costs added to principal balance of notes payable	432	578
Share-based compensation expense	5,459	1,745
Earnings from equity method investments	(5,174)	(16,416)
Other non-cash items, net	177	40
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Receivables	7,625	2,590
Related party receivables	(226)	20
Prepaid expenses and other assets	(460)	(1,482)
Costs incurred on uncompleted contracts	2,363	(31,681)
Restricted cash, long-term	(709)	(1,212)
Other long-term assets	231	102
Accounts payable	2,713	2,227
Accrued payroll and related liabilities	1,651	(683)
Other current liabilities	1,348	(1,211)
Billings on uncompleted contracts	(9,420)	27,703
Advance deposit, related party	(1,496)	(660)
Other long-term liabilities	19	125
Settlement and royalty indemnification obligation	(1,472)	(3,396)
Distributions from equity method investees, return on investment	19	1,259
Net cash used in operating activities	(13,788)	(18,928)

	Six Months Ended June 30,	
(in thousands)	2015	2014
Cash flows from investing activities		
Purchase of investment securities, restricted	—	404
Increase in restricted cash	(1,200)	(343)
Acquisition of property and equipment	(380)	(881)
Advance on note receivable	(500)	—
Acquisition of business	(2,124)	—
Purchase of and contributions to equity method investees	(230)	(3,779)
Distributions from equity method investees in excess of cumulative earnings	4,730	16,321
Net cash provided by (used in) investing activities	296	11,722
Cash flows from financing activities		
Repayments on notes payable	(1,014)	—
Proceeds received upon exercise of stock options	—	243
Repurchase of shares to satisfy minimum tax withholdings	(262)	(4)
Net cash provided by (used in) financing activities	(1,276)	239
Increase (Decrease) in Cash and Cash Equivalents	(14,768)	(6,967)
Cash and Cash Equivalents, beginning of period	25,181	37,890
Cash and Cash Equivalents, end of period	$10,413	$30,923
Supplemental disclosures of cash information:		
Cash paid for interest	$2,993	$2,086
Cash paid for income taxes	146	95
Supplemental disclosure of non-cash investing and financing activities:		
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

See Notes to the Condensed Consolidated Financial Statements.

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

Note 1 - Basis of Presentation

Nature of Operations

Advanced Emissions Solutions, Inc. (“ADES” or the "Company"), a Delaware corporation with its principal office located in Highlands Ranch, Colorado, is principally engaged in providing environmental and emissions control equipment, technologies and specialty chemicals to the coal-burning electric power generation industry. Although the Company has historically operated at a net loss, the Company generates substantial earnings and tax credits under Section 45 of the Internal Revenue Code ("IRC") from its equity investments in certain entities and royalty payment streams related to technologies that are licensed to Clean Coal Solutions, LLC, a Colorado limited liability company ("CCS"). Such technologies allow CCS to provide their customers with various solutions to enhance combustion and reduced emissions of nitrogen oxide ("NO_x") and mercury from coal burned to generate electrical power. The Company’s sales occur principally throughout the United States. See Note 11 for additional information regarding the Company's operating segments.

Basis of Presentation

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

The unaudited Condensed Consolidated Financial Statements of ADES in this quarterly report are presented on a consolidated basis comprising ADES and its direct and indirect, wholly-owned subsidiaries: ADA-ES, Inc. ("ADA"), a Colorado corporation, BCSI, LLC ("BCSI"), a Delaware limited liability company, Advanced Clean Energy Solutions, LLC ("ACES"), a Delaware limited liability company, ADEquity, LLC ("ADEquity"), a Delaware limited liability company, ADA Environmental Solutions, LLC ("ADA LLC"), a Colorado limited liability company, ADA Intellectual Property, LLC ("ADA IP"), a Colorado limited liability company, ADA-RCM6, LLC ("ADA-RCM6"), a Colorado limited liability company, ADA Analytics, LLC, a Delaware limited liability company and ADA Analytics Israel Ltd. (collectively with ADA Analytics, LLC, "ADA Analytics"), an Israel limited liability company. ADA LLC and ADA IP had no operations in 2015 and 2014. Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of and for the three and six months ended June 30, 2015 and 2014.

On March 14, 2014, the Company effected a two-for-one stock split of the Company’s common stock, which was completed in the form of a common stock dividend and all amounts have been retroactively adjusted for the split.

In the opinion of management, these consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. These Condensed Consolidated Financial Statements of ADES should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Significant accounting policies disclosed therein have not changed.

Liquidity

During the three and six months ended June 30, 2015 the Company's working capital and cash balances continued to decline, due principally to continued losses. Such losses were driven primarily by poor operating performance related to Dry Sorbent Injection ("DSI") equipment, which is included within the Emissions Control - Manufacturing segment as of June 30, 2015, substantial and continuing expenditures required to fund the re-audit and restatement ("Restatement") of certain of our prior consolidated financial statements, and a significant reduction in the receipt of cash distributions from CCS. This deterioration of working capital directly necessitated the securing of the loan transaction described in Note 12 ("Credit Agreement"). The Company expects that pressure on 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, both of which are described in Note 8.

The Company's ability to generate sufficient cash flow required to meet ongoing operational needs and to meet obligations, including the repayment of the loan under the Credit Agreement, depends upon several factors, including executing on the Company's contracts and initiatives, receiving royalty payments from Clean Coal Solutions, LLC ("CCS") and distributions from CCS and Clean Coal Solutions Services, LLC ("CCSS"), and our ability to maintain a significant share of the market and increase operational efficiencies for emissions control equipment, chemicals and services. Increased distributions from CCS will likely be dependent upon the securing of additional tax equity investors for those CCS facilities that are currently not operating, or operating as retained Refined Coal ("RC") facilities. If we are unable to generate sufficient cash flow, we may be

5

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.

Earnings (Loss) Per Share

The Company computes earnings (loss) per share in accordance with FASB ASC 260-10. Under this guidance, unvested restricted stock awards ("RSA's") that contain non-forfeitable rights to dividends or dividend equivalents are deemed to be participating securities and, therefore, are included in computing basic earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings (losses). The Company did not declare any cash dividends during the three-month or six-month periods ended June 30, 2015 or 2014.

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net income (loss)	$(12,447)	$ 992	$(18,579)	$ 409
Less: Undistributed income (loss) allocated to participating securities	(130)	14	(215)	6
Income (loss) attributable to common stockholders	$(12,317)	$ 978	$(18,364)	$ 403
Basic weighted-average common shares outstanding (1)	21,715	21,477	21,728	21,487
Add: dilutive effect of equity instruments	—	558	—	605
Diluted weighted average shares outstanding	21,715	22,035	21,728	22,092
Earnings (loss) per share - basic	$(0.57)	$ 0.05	$(0.85)	$ 0.02
Earnings (loss) per share - diluted	$(0.57)	$ 0.04	$(0.85)	$ 0.02

(1) The number of shares and per share amounts have been retroactively restated to reflect the two-for-one stock split of the Company's common stock, which was effected in the form of a common stock dividend distributed on March 14, 2014.

6

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(share data in thousands)	2015	2014	2015	2014
Stock options	18	—	24	—
Restricted stock awards	161	—	181	—
Performance share units	200	—	195	—
Stock appreciation rights	2	—	6	—
Total shares excluded from diluted shares outstanding	381	—	406	—

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. There have been no changes in the Company's critical accounting estimates from those that were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Actual results could differ from these estimates.

New Accounting Guidance

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Topic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items that simplifies income statement presentation by eliminating extraordinary items from U.S. GAAP. This guidance is to be applied either prospectively or retrospectively and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted provided the guidance is applied from the beginning of the annual year of adoption. The Company has adopted the guidance as of January 1, 2014 and the adoption of this standard did not have an impact on the Company's consolidated financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810), Amendments to the Consolidation Analysis that meant to clarify the consolidation reporting guidance in U.S. GAAP. This guidance is to be applied using a retrospective method or a modified retrospective method, as outlined in the guidance, and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is currently evaluating this guidance but does not believe the adoption of this standard will impact the Company's financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires an entity to present debt issuance costs related to a debt liability as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective retrospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this standard impacted the presentation of certain financial statement line items within the Company's consolidated balance sheets and related disclosures, but did not affect the Company's consolidated results of operations.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting Measurement-Period Adjustments, which eliminates the requirement for an entity to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is completed. ASU 2015-16 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. The adoption of this standard will not have an impact on the Company's financial position and results of operations.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in the update. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this standard will not have an impact on the Company's financial position.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This new standard provides guidance on how entities measure certain equity investments and present changes in the fair value. This standard requires that entities measure certain equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. ASU 2016-01 is effective for fiscal years beginning after December 31, 2017. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right of use asset and related lease liability for those leases classified as operating leases at the commencement date and have lease terms of more than 12 months. This topic retains the distinction between finance leases and operating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, and must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815), which requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the “clearly and closely related” criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and must apply a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), which simplifies the accounting for equity method investments by removing the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and must apply a prospective adoption approach. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarify the implementation guidance on principal versus agent considerations. ASU 2016-08 is effective for effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

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

Note 2 - Restructuring

The Company recorded restructuring charges during the three and six months ended June 30, 2015 in connection with a reduction in force, the departure of certain executive officers and management's further alignment of the business with strategic objectives. These charges related to severance arrangements with departing employees and executives and the termination of the operations of a foreign subsidiary that was involved in the development of certain data analytics and monitoring products (see Note 3), as well as non-cash charges related to the acceleration of vesting of certain stock awards. The Company incurred additional charges during the remainder of 2015 associated with the closing of BCSI's facilities and corresponding alignment of the business with strategic objectives.

The Company recorded restructuring charges during the three and six months ended June 30, 2014 primarily related to a reduction in force and management's alignment of the business with strategic objectives. These charges were related to severance agreements with departing employees, including non-cash charges related to the acceleration of vesting of certain stock awards.

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

		Pretax Charge					
(in thousands, except employee data)	Approximate Number of Employees	Refined Coal	Emission Control - ACI	Emissions Control - BCSI	Research & Development	All Other and Corporate	Total
Three Months Ended June 30, 2015							
Restructuring charges	41	$ —	$ 1,715	$ —	$ 86	$ 3,764	$ 5,565
Changes in estimates		—	—	—	(2)	—	(2)
Total pretax charge, net of reversals		$ —	$ 1,715	$ —	$ 84	$ 3,764	$ 5,563
Six Months Ended June 30, 2015							
Restructuring charges	45	$ —	$ 1,715	$ —	$ 86	$ 4,242	$ 6,043
Changes in estimates		—	(10)	—	(2)	—	(12)
Total pretax charge, net of reversals		$ —	$ 1,705	$ —	$ 84	$ 4,242	$ 6,031
Three Months Ended June 30, 2014							
Restructuring charges	18	$ —	$ 352	$ —	$ —	$ 14	$ 366
Total pretax charge, net of reversals		$ —	$ 352	$ —	$ —	$ 14	$ 366
Six Months Ended June 30, 2014							
Restructuring charges	18	$ —	$ 352	$ —	$ —	$ 14	$ 366
Total pretax charge, net of reversals		$ —	$ 352	$ —	$ —	$ 14	$ 366

The following table summarizes the Company’s utilization of restructuring accruals for the six months ended June 30, 2015:

(in thousands)	Employee Severance
Remaining accrual as of December 31, 2014	$ 1,690
Expense provision (1)	6,043
Cash payments and other (1)	(4,342)
Change in estimates	(12)
Remaining accrual as of June 30, 2015	$ 3,379

(1) Included within the Expense provision and Cash payments and other line items in the above table is equity based compensation of $3.1 million for the six months ended June 30, 2015, resulting from the accelerated vesting of modified equity-based compensation awards for certain terminated employees.

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

Note 3 - Acquisition

2015 Acquisition

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

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

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

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

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

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

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

Note 4 - Equity Method Investments

Clean Coal Solutions, LLC

The Company's ownership interest in CCS was 42.5% as of June 30, 2015 and December 31, 2014. CCS supplies technology equipment, and technical services to cyclone-fired, pulverized coal and other boiler users, but CCS's primary purpose is to put into operation facilities that produce Refined Coal ("RC") that qualifies for tax credits available under Section 45 of the IRC ("Section 45 tax credits"). CCS has been determined to be a variable interest entity ("VIE"); however, the Company does not have the power to direct the activities that most significantly impact the VIE’s economic performance and has therefore accounted for the investment under the equity method of accounting. The Company determined the partners of CCS with voting rights had identical voting interests, equity control interests and board control interests, and therefore, concluded that the power to direct the activities that most significantly impact the VIE’s economic performance were shared.

As shown in the tables below, the Company’s carrying value in CCS has been reduced to zero in all periods presented, as cumulative cash distributions from CCS have exceeded the Company's pro-rata share of cumulative earnings in CCS. If CCS subsequently reports net income, the Company will not record its pro-rata share of such net income until cumulative share of pro-rata income equals or exceeds 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. As such, equity income or loss reported on our income statement may differ from a mathematical calculation of net income or loss attributable to our equity interest based upon the factor of our equity interest and the net income or loss attributable to equity owners as shown on CCS’s income statement. Likewise, distributions from equity method investees are reported on our 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.

The following tables summarize the results of operations of CCS for the three and six months ended June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Gross profit	$24,905	$20,295	$55,834	$37,505
Operating expenses	7,147	4,998	12,503	9,419
Income from operations	17,758	15,297	43,331	28,086
Other expenses	470	(498)	329	(741)
Class B preferred return	(1,632			