ENTHEOS TECHNOLOGIES INC
Form DEF 14C
July 31, 2003

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

SCHEDULE 14C INFORMATION STATEMENT

Information Statement Pursuant to Section 14(c)

of the Securities Exchange Act of 1934

[X] Filed by the Registrant

[ ] Filed by a Party other than the Registrant

Check the appropriate box:

[ ] Preliminary Information Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)

[X] Definitive Information Statement

ENTHEOS TECHNOLOGIES, INC.

(Name of Registrant As Specified In Its Charter)

Commission File Number: 0-30156

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

1) Title of each class of securities to which transaction applies:

Common ($0.00001 Par Value) Preferred ($0.0001 Par Value)

2) Aggregate number of securities to which transaction applies:

16,104,187 Shares of Common, 10,000,000 Shares of Preferred

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):____

4) Proposed maximum aggregate value of transaction:_________

5) Total fee paid:_______________________________________

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:______________________________

2) Form, Schedule or Registration Statement No.:_____________

3) Filing Party:____

4) Date Filed:____

ENTHEOS TECHNOLOGIES, INC.

Suite 216 1628 West 1st Ave.

Vancouver, B.C. V6J 1G1

Telephone: 604-659-5005

May 30, 2003

Dear Stockholders:

You are cordially invited to attend the 2003 Annual Meeting of Stockholders of Entheos Technologies, Inc. The meeting will be held at 11:00 a.m., local time, on August 29th, 2003, at Suite 216, 1628 West 1st Ave., Vancouver, B.C., V6J 1G1. Enclosed are the official notice of this meeting, a proxy statement and a form of proxy.

At this meeting you will be asked to elect directors to serve until the next annual meeting, ratify the selection of the Company's independent auditors for 2003 and to transact any other business as may properly come up before the meeting.

Please note that attendance at the Annual Meeting will be limited to stockholders of record at the close of business on May 30th, 2003, and to guests of the Company. If your shares are registered in your name and you plan to attend the Annual Meeting, please bring the enclosed ballot with you to the meeting. If your shares are held by a broker, bank or other nominee and you plan to attend the meeting, please contact the person responsible for your account regarding your intention to attend the meeting so they will know how you intend to vote your shares at that time. Stockholders who do not expect to attend the Annual Meeting in person may submit their ballot to the Management of the Company at Suite 216, 1628 West 1st Ave., Vancouver, B.C., V6J 1G1.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Terri DuMoulin

Terri DuMoulin

Director, Secretary and Treasurer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

OF ENTHEOS TECHNOLOGIES, INC. TO BE HELD AUGUST 29th, 2003

To the Stockholders of Entheos Technologies, Inc.:

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Stockholders (the "Annual Meeting") of Entheos Technologies, Inc., a Nevada corporation (the "Company"), will be held at Suite 216, 1628 West 1st Ave, Vancouver, B.C., on the 29th day of August, 2003, at 11:00 a.m. (local time) for the following purposes:

1.

To elect 3 directors to the Board of Directors to serve until the next Annual Meeting of stockholders or until their respective successors are duly elected and have qualified;

2.

To ratify the appointment of Clancy and Co., P.L.L.C. as the Company's independent auditor for the fiscal year ending December 31st, 2003;

3.

To transact any and all other business that may properly come before the Annual Meeting or any adjournment(s) thereof.

Pursuant to the Company's Bylaws (the "Bylaws"), the record date (the "Record Date") for the determination of stockholders entitled to notice of and to vote at such meeting or any adjournment(s) thereof shall be the close of business on May 30th, 2003. Only holders of record of the Company's Common Stock at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. Shares can be voted at the Annual Meeting only if the holder is present or represented by proxy. The stock transfer books will not be closed. A copy of the Company's 2002 Annual Report to Stockholders, in the form of the 10-KSB filed with the Securities and Exchange Commission, which includes audited financial statements, has been included in this mailing to the Company's stockholders. A list of stockholders entitled to vote at the Annual Meeting will be available for examination at the offices of the Company for ten (10) days prior to the Annual Meeting.

You are cordially invited to attend the Annual Meeting; whether or not you expect to attend the meeting in person, however, you are urged to mark, sign, date, and mail or telefax the enclosed form of proxy promptly so that your shares of stock may be represented and voted in accordance with your wishes and in order that the presence of a quorum may be assured at the meeting. Your proxy will be returned to you if you should be present at the Annual Meeting and should request its return in the manner provided for revocation of proxies on the initial page of the enclosed proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Terri DuMoulin

Terri DuMoulin

Director, Secretary and Treasurer

Vancouver, B.C., May 30, 2003

ENTHEOS TECHNOLOGIES, INC.

Suite 216 1628 West 1st Avenue

Vancouver, BC V6J 1G1

PROXY STATEMENT

FORANNUAL MEETING OF STOCKHOLDERS

TO BE HELD AUGUST 29th, 2003

SOLICITATION AND REVOCABILITY OF PROXIES

The accompanying proxy is solicited by the Board of Directors on behalf of Entheos Technologies, Inc., a Nevada corporation (the "Company"), to be voted at the 2003 Annual Meeting of Stockholders of the Company (the "Annual Meeting") to be held on August 29th, 2003, at the time and place and for the purposes set forth in the accompanying Notice of Annual Stockholders (the "Notice") and at any adjournment(s) thereof. **When proxies in the accompanying form are properly executed and received, the shares represented thereby will be voted at the Annual Meeting in accordance with the directions noted thereon; if no direction is indicated, such shares will be voted FOR the election of the nominees listed thereon, FOR the ratification of the independent auditor, and in their discretion with respect to any other matters that may properly come before the stockholders at the Annual Meeting.**

The executive offices of the Company are located at, and the mailing address of the Company is, Suite 216, 1628 West 1st Avenue, Vancouver, B.C., V6J 1G1.

Management does not anticipate that any matters will be presented at the Annual Meeting other than matters set forth in the Notice.

This proxy statement (the "Proxy Statement") and accompanying proxy are being mailed on or about June 30th, 2003. The Company's Annual Report on Form 10-KSB (the "2002 Annual Report"), which serves as the Annual Report to Stockholders, covering the Company's fiscal year ended December 31st, 2002, is attached.

Any stockholder of the Company giving a proxy has the right to revoke their proxy at any time prior to the voting thereof by voting in person at the Annual Meeting, by delivering a duly executed proxy bearing a later date or by giving written notice of revocation to the Company addressed to Stanley Wong, President, Suite 216, 1628 West 1st Avenue, Vancouver, B.C., V6J 1G1; no such written notice shall be effective, however, until such notice of revocation has been received by the Company at or prior to the Annual Meeting.

In addition to the solicitation of proxies by use of the mail, officers and regular employees of the Company may solicit the return of proxies, either by mail, telephone, telefax, telegraph or through personal contact. Such officers and employees will not be additionally compensated but will be reimbursed for out- of-pocket expenses. Brokerage houses and other custodians, nominees, and fiduciaries will, in connection with shares of the Company's common stock, $0.00001 par value per share (the "Common Stock"), registered in their names, be requested to forward solicitation material to the beneficial owners of such shares of Common Stock.

The cost of preparing, printing, assembling, and mailing the 2002 Annual Report, the Notice, this Proxy Statement, and the enclosed form of proxy, as well as the cost of forwarding solicitation materials to the beneficial owners of shares of Common Stock and other costs of solicitation, are to be borne by the Company.

QUORUM AND VOTING

The record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on May 30th, 2003 (the "Record Date"). On the Record Date, there were 16,104,187 shares of Common Stock issued and outstanding.

Each share of Common Stock is entitled to one vote on all matters to be acted upon at the Annual Meeting, and neither the Company's Certificate of Incorporation (the "Certificate of Incorporation") nor its Bylaws allow for cumulative voting rights. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding Common Stock entitled to vote at the meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote thereat, present in person or by proxy, may adjourn the Annual Meeting from time to time without notice or other announcement until a quorum is present or represented. Assuming the presence of a quorum, the affirmative vote of a plurality of votes cast is required for the election of each of the nominees for director. A majority of the votes represented and entitled to vote at the Annual Meeting will be required for the approval of all other matters to be voted upon. Abstentions and broker non-votes will each be counted towards the presence of a quorum, but (i) will not be counted as votes cast and, accordingly, will have no effect on the plurality vote required for the election of directors, and (ii) will be counted as votes represented at the Annual Meeting and, accordingly, will have the effect of a vote "against" all other matters to be acted upon.

Proxies in the accompanying form which are properly executed and returned to the Company will be voted at the Annual Meeting in accordance with the instructions contained in such proxies and, at the discretion of the proxy holders, on such other matters as may properly come before the meeting. Where no such instructions are given, the shares will be voted for the election of each of the nominees for director and the ratification of Clancy and Co, P.L.L.C. as the independent auditor.

A stockholder that intends to present a proposal at the 2003 Annual Meeting of Stockholders for inclusion in the Company's proxy statement and form of proxy relating to such meeting must submit such proposal by August 1st, 2003. The proposal must be mailed to the Company's offices at Suite 216, 1628 West 1st Avenue, Vancouver, B.C., V6J 1G1.

SUMMARY

Entheos Technologies Inc. ("Entheos" or the "Company"), through its wholly owned subsidiary, Email Solutions, Inc., operates as an application service provider developing reliable, scalable, real time, high volume outsourced email services.

While the Company continues to market its email ASP services, which includes the deployment, management and hosting of pre-packaged software applications through centrally located servers, to date the Company has realized limited success at attracting new clients due to strong competition and a dearth of high volume email clients, many of whom are either entrenched with existing vendors or have developed in house applications and infrastructures. As a result, the Company presently operates on a limited basis and plans to sell its ASP business and use the sale proceeds, as well as other available cash, to invest in or develop other technology-based ventures.

The Company's 2002 Annual Report provides a review of our operations during the past year.

The following is a brief summary of certain information contained elsewhere in this Proxy Statement. This summary is not intended to be complete and is qualified in all respects by reference to the detailed information appearing elsewhere in this Proxy Statement and the exhibit hereto.

THE MEETING

Date, Time and Place of the Annual Meeting

The Annual Meeting of Entheos Technologies, Inc. is scheduled to be held on August 29th, 2003, at 11:00 a.m. (local time) at Suite 216, 1628 West 1st Avenue, Vancouver, B.C., V6J 1G1.

Record Date

Only holders of record of shares of Common Stock at the close of business on May 30th, 2003, are entitled to receive notice of and to vote at the Annual Meeting.

Vote Required

Assuming the presence of a quorum, the affirmative vote of a plurality of votes cast is required for the election of each of the nominees for director. A majority of the votes cast with a quorum present at the Annual Meeting will be required for the approval of all other matters to be voted upon.

Accountants

Clancy and Co,. P.L.L.C. has been selected by the Company to act as its independent auditor for 2003. It is not expected that the representatives of Clancy and Co. P.L.L.C. will attend the Annual Meeting or be available to answer questions from the stockholders.

Recommendations

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS THAT THE COMPANY'S STOCKHOLDERS VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR ("PROPOSAL 1") AND VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF CLANCY AND CO., P.L.L.C. AS THE COMPANY'S INDEPENDENT AUDITOR FOR THE FISCAL YEAR ENDING DECEMBER 31st, 2003 ("PROPOSAL 2").

PROPOSAL NO. 1:

ELECTION OF BOARD MEMBERS

Nominees

The Company's Board of Directors is currently comprised of three directors. Each of the nominees is presently a director of the Company. If so directed in the enclosed proxy, the persons named in such proxy will vote the shares represented by such proxy for the election of the following named nominees for the office of director of the Company, to hold office until next annual meeting of the stockholders or until their respective successors shall have been duly elected and shall have qualified.

Information Concerning Nominees

Name

Age

Position

Director/Officer Since

Stanley D. Wong

33

President and CEO

February 2003

Harmel S. Rayat

41

Director & Chairman

March 1996

Terri DuMoulin

36

Treasurer, Secretary & Director

December 2002

The Board of Directors does not contemplate that any of the above-named nominees for director will refuse or be unable to accept election as a director of the Company, or be unable to serve as a director of the Company. Should any of them become unavailable for nomination or election or refuse to be nominated or to accept election as a director of the Company, then the persons named in the enclosed form of proxy intend to vote the shares represented in such proxy for the election of such other person or persons as may be nominated or designated by the Board of Directors. No nominee is related by blood, marriage, or adoption to another nominee or to any executive officer of the Company or its subsidiaries or affiliates.

Assuming the presence of a quorum, each of the nominees for director of the Company requires for his election the approval of a plurality of the votes cast by the shares of Common Stock entitled to vote at the Annual Meeting.

The Board of Directors regard all of the individuals being nominated to the Board as extremely competent professionals with many years of experience in different fields of endeavor, including sales and marketing, management, healthcare, and corporate finance and development. The Board feels that this collective base of experience and knowledge is crucial in the overall development of the Company's business.

Information Concerning Current Officers and Directors

The following narrative describes the positions held by the Company's current officers and directors. During 2002, each board member attended at least 75% of the board meetings that were held while they were in office.

STANLEY D. WONG (Age 33). President, CEO. Mr. Wong has had extensive experience in sales and marketing in the financial services sector. After graduating from Simon Fraser University with a Bachelors of Arts degree in 1996, Mr. Wong joined Vancouver City Savings Union as a Financial Services Officer, a position he held until 2001. Vancouver City Savings Union is Canada s largest credit union, with C$7.5 billion in assets. Since 2001 to present, Mr. Wong has been with the Canadian Imperial Bank of Commerce as a Financial Advisor specializing in wealth management and financial planning.

HARMEL S. RAYAT (Age 41). Chairman, Director. Mr. Rayat has been in the venture capital industry since 1981. Between January 1993 and April 2001, Mr. Rayat served as the president of Hartford Capital Corporation, a company that provides financial consulting services to emerging growth corporations. From April 2001 through January 2002, Mr. Rayat acted as an independent consultant advising small corporations. Since January 2002, Mr. Rayat has been president of Montgomery Asset Management Corporation, a privately held firm providing financial consulting services to emerging growth corporations. Mr. Rayat is also a Director of Enterprise Technologies, Inc, e.Deal,net, Inc. and HepaLife Technologies, Inc. Mr. Rayat has served as a Director of the Company since March 18th, 1996.

TERRI DuMOULIN (Age 36). Director, Secretary, Treasurer. Ms. DuMoulin has had extensive experience in the investment field dealing with early stage companies. Between June 1995 and October 1996, she worked as a licensed investment advisor s assistant at Canaccord Capital Corp., before taking on the duties of an office manager for a private management firm dealing with junior resource companies during October 1996 through November 1997. During the period from November 1997 through August 2002, she worked as a licensed investment advisor and trader specializing in institutional and high net worth investor trading at several Canadian investment dealers, most recently with Golden Capital Securities Ltd. Since August 2002 to present, Ms. DuMoulin has served as a director and secretary of Greystoke Venture Capital Inc., a private investment firm. Ms. DuMoulin has served as a Director of the Company since December 20th, 2002.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors, officers and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("the Commission"). Directors, officers and greater than 10 percent beneficial owners are required by applicable regulations to furnish the Company with copies of all forms they file with the Commission pursuant to Section 16(a). Other than Mr. Harmel S. Rayat, the Company is not aware of any beneficial owner of more than 10 percent of its registered Common Stock for purposes of Section 16(a).

Based solely upon a review of the copies of the forms furnished to the Company, the Company believes that during fiscal 2002 all filing requirements applicable to its directors and executive officers were not satisfied.

Director Compensation

The Company's employees receive no extra pay for serving as directors. Non-employee directors are reimbursed for any out-of-pocket meeting expenses and are compensated with stock options.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE INDIVIDUALS NOMINATED FOR ELECTION AS A DIRECTOR.

PROPOSAL NO. 2:

THE RATIFICATION OF THE APPOINTMENT OF CLANCY AND CO. P.L.L.C.

AS THE COMPANY S INDEPENDENT AUDITOR

The Board of Directors has selected Clancy and Co., P.L.L.C. as independent auditors for the Company for the fiscal year ending December 31st, 2003, subject to ratification of the selection by shareholders. Clancy and Co., P.L.L.C. has served as independent public accountants for the Company in the past. To the knowledge of the Company, at no time has Clancy and Co., P.L.L.C. had any direct or indirect financial interest in or any connection with the Company or any of its subsidiaries other than in connection with services rendered to the Company as described below.

It is not expected that the representatives of Clancy and Co., P.L.L.C. or any other auditors will attend the Annual Meeting. Clancy and Company have not indicated their desire to make a statement. They will respond to written questions submitted to the Company.

During and for the year ended December 31st, 2002, Clancy and Co., P.L.L.C. provided the following audit, audit-related and other professional services for the Company. The services were as follows:

-

the audit of the annual financial statements included in the Company s Form 10-KSB and the reviews of unaudited quarterly financial statements included in the Company s Form 10-QSB s;

-

Consultation in connection with various tax and accounting matters; and

-

Certain other professional services.

The cost of providing these services during and for the year ended December 31st, 2002, by specified categories, were as follows:

Audit Fees: $14,460 These fees covered the audit of the Company s annual financial statements and review of its quarterly financial statements.

Financial Information Systems Design and Implementation Fees:

None

All Other Fees: $925 These fees covered services principally involving internal audit support and income tax consulting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF CLANCY AND CO. P.L.L.C. AS THE COMPANY'S INDEPENDENT AUDITOR.

Security Ownership of Management and Principal Stockholders

The following table sets forth, as of May 30th, 2003, the beneficial ownership of the Company's Common Stock by each nominee, director and executive officer of the Company, each person known by the Company to beneficially own more than 5% of the Company's Common Stock outstanding as of such date and the executive officers and directors of the Company as a group.

Number of Shares

Person or Group

of Common Stock

Percent

Harmel S. Rayat (1)

14,782,948

91.7%

216-1628 West First Avenue

Vancouver, B.C. V6J 1G1 Canada

Harmel S. Rayat (2)

1,000,000

6.2%

216-1628 West First Avenue

Vancouver, B.C. V6J 1G1 Canada

Terri DuMoulin (3)

15,000

0.09%

216-1628 West First Avenue

Vancouver, B.C. V6J 1G1 Canada

Stanley Wong (4)

5,000

0.03%

216-1628 West First Avenue

Vancouver, B.C. V6J 1G1 Canada

Directors and Executive Officers

15,802,948

98.02%

as a group (3 persons)

(1) Includes 9,648 shares held by Tajinder Chohan, Mr. Harmel S. Rayat's wife. Additionally, other members of Mr. Rayat's family hold shares. Mr. Rayat disclaims beneficial ownership of the shares and share purchase warrants beneficially owned by his wife and other family members.

(2) Includes 1,000,000 shares, which may be acquired pursuant to stock options granted on February 11th, 2003, and exercisable under the Company's stock option plans.

(3) Includes 15,000 shares, which may be acquired pursuant to stock options granted on February 11th, 2003, and exercisable under the Company's stock option plans.

(4) Includes 5,000 shares, which may be acquired pursuant to stock options granted on February 11th, 2003, and exercisable under the Company's stock option plans.

Voting Intentions of Certain Beneficial Owners and Management

The Company's directors and officers have advised that they will vote the 15,802,948 shares owned or controlled by them FOR each of the Proposals in this Proxy Statement. These shares represented 98% of the outstanding Common

Stock of the Company as of May 30th, 2003.

Remuneration and Executive Compensation

The following table shows, for the three-year period ended December 31st, 2002, the cash compensation paid by the Company, as well as certain other compensation paid or accrued for such year, to the Company's Chief Executive Officer and the Company's other most highly compensated executive officers. Except as set forth on the following table, no executive officer of the Company had a total annual salary and bonus for 2002 that exceeded $100,000.

Summary Compensation Table

Securities

Underlying

Name and

Options

All Other

Principal Position

Year

Salary

Bonus

Other

Granted

Compensation

Stanley D. Wong

2002

$0

$0

$0

0

$0

CEO, President, Director

2001

$0

$0

$0

0

$0

2000

$0

$0

$0

0

$0

Kesar S. Dhaliwal

2002

$127,520

$0

$0

0

$0

Former CEO, President, Director

2001

$127,520

$0

$0

0

$0

2000

$127,520

$0

$0

0

$0

Harmel S. Rayat*

2002

$187,333

$0

$0

0

$0

Chairman, Director

2001

$144,000

$0

$0

0

$0

2000

$12,000

$0

$0

0

$0

Terri DuMoulin

2002

$0

$0

$0

0

$0

Secretary, Treasurer, Director

2001

$0

$0

$0

0

$0

2000

$0

$0

$0

0

$0

*During 2002 and 2001, the Company charged $187,333 and $144,000, respectively, to operations for management and consulting fees incurred for services rendered by the Chairman and majority stockholder. During the year ended December 31st, 2002, the Company converted $282,666 of accounts payable into 14,133,300, or $0.02 per share. The conversion price was based on the fair market value of the common stock on the date of issuance. The total amount converted represented an accounts payable balance at December 31st, 2001 of $138,666 and $144,000 represented 2002 management fees.

Stock Option Grants in 2002

Shown below is further information regarding employee stock options awarded during 2002 to the named officers and directors:

Number of

% of Total

Securities

Options

Underlying

Granted to

Exercise

Expiration

Name

Options

Employees

Price

Date

NONE

Aggregated Option Exercises During 2002 and Year-End Option Values

The following table shows certain information about unexercised options at year-end with respect to the named officers and directors:

Common Shares

Underlying

Value of Unexercised

Unexercised Options

In-The-Money Options

On 12/31/02

On 12/31/02

Name

Exercisable

Unexercisable

Exercisable

Unexercisable

NONE

There were no options exercised by any of the officers listed above in 2002.

Related Transactions

As at December 31st, 2002, $43,267 was owed by the Company s former President and CEO. The loan, which was made on September 10th, 2001, is for $40,000, plus $3,267 in accrued interest. The terms of the loan include interest at 6.25 percent per annum, with both the principal and interest due at maturity, which is September 10th, 2003.

During 2002 and 2001, the Company charged $187,333 and $144,000, respectively, to operations for management and consulting fees incurred for services rendered by the Chairman and majority stockholder. During the year ended December 31st, 2002, the Company converted $282,666 of accounts payable into 14,133,300, or $0.02 per share.

The Company's office is located at Suite 216, 1628 West 1st Avenue, Vancouver, B.C., V6J 1G1. These premises are owned by Tajinder Chohan and Kundan S. Rayat, the wife and father, respectively, of the Company's President and CEO. At present, the Company pays no rent.

Employment Contracts

The Company does not have any employment contracts with any of its officers or employees.

COPIES OF FORM 10-KSB

The Company hereby undertakes to provide without charge to each person, including any beneficial owner, to whom a copy of this Proxy Statement has been delivered, on the written request of any such person, a copy of the Company's most recent Form 10-KSB. Written requests for such copies should be directed to Terri DuMoulin, the Secretary of the Company, at Suite 216, 1628 West 1st Avenue, Vancouver, BC, V6J 1G1.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31st, 2002

Commission file number 000-30156

ENTHEOS TECHNOLOGIES INC.

(Name of small business issuer as specified in its charter)

NEVADA

98-0170247

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

Suite 216 - 1628 West 1st Avenue, Vancouver, B.C.

V6J 1G1

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(604) 659-5005

Securities registered under Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Act:

Common Stock, $0.001 par value, listed

on the OTC Bulletin Board

Indicate by check mark whether the registrant: (1) has filed all reports required 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 for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-KSB [X]

Revenues for last fiscal year were $919,418.00

Aggregate market value of Common Stock, $0.00001 par value, held by non-affiliates of the registrant as of April 1st, 2003: $673,832. Number of shares of Common Stock, $0.00001 par value, outstanding as of April 1st, 2003: 16,104,187.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

ANNUAL REPORT ON FORM 10-KSB

FOR THE FISCAL YEAR ENDED DECEMBER 31st, 2002

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INTRODUCTORY NOTE

This Annual Report on Form 10-KSB may be deemed to contain 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. The Company intends that such forward-looking statements be subject to the safe harbors created by such statutes. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties, many beyond the Company s control. Accordingly, to the extent that this Annual Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements.

The differences may be caused by a variety of factors, including but not limited to adverse economic conditions, intense competition including intensification of price competition and entry of new competitors and competing products or services, adverse federal, state and local government regulation, inadequate capital, unexpected costs and operating deficits, increases in general and administrative costs, termination of contracts or agreements, technological obsolescence of the Company's products or services, technical problems with the Company's products or services, price increases for supplies and components, litigation and administrative proceedings involving the Company, the possible acquisition of new businesses or technologies that result in operating losses or that do not perform as anticipated, resulting in unanticipated losses, the possible fluctuation and volatility of the Company's operating results, financial condition and stock price, losses incurred in litigating and settling cases, dilution in the Company's ownership of its business, adverse publicity and news coverage, inability to carry out research, development and commercialization plans, loss or retirement of key executives and research scientists, changes in interest rates, inflationary factors, and other specific risks that may be alluded to in this Annual Report or in other reports issued by the Company.

In addition, the business and operations of the Company are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Forward-Looking Statements and Associated Risk

This Annual Report on Form 10-KSB and the documents incorporated by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates and projections about our business and industry, management's beliefs, and certain assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks" and "estimates" and similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance and actual actions or results may differ materially. These statements are subject to certain risks, uncertainties and assumptions that are difficult to predict, including those noted in the documents incorporated by reference. Entheos Technologies, Inc. ("Entheos" or the "Company"), undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise, unless required by law. Readers should, however, carefully review the risk factors included in this and other reports or documents filed by Entheos from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-QSB and any Current Reports on Form 8-K.

The Company

Entheos Technologies Inc. through its wholly owned subsidiary, Email Solutions, Inc., operates as an application service provider (ASP) of reliable, scalable, real time, high volume outsourced email services. In addition, the Company s also operated a media streaming portal and a website focused on the home improvement market. Due to low traffic and lack of meaningful revenues, both of these online properties were offered for sale in the first quarter of 2001. There were no offers received by the Company and as a result, the Company wrote off its entire investment and charged to operations $31,250 during the fourth quarter of 2001.

Through its wholly owned subsidiary, Email Solutions, Inc., Entheos has developed a proprietary application capable of delivering upwards of 1,000,000 customized email messages per hour, with the ability to handle over of 20,000,000 emails per day. While the Company continues to market its email ASP services, which includes the deployment, management and hosting of pre-packaged software applications through centrally located servers, to date the Company has realized limited success at attracting new clients due to strong competition and a dearth of high volume email clients, many of whom are either entrenched with existing vendors or have developed in house applications and infrastructures. As a result, the Company presently operates on a limited basis and plans to sell its ASP business and use the sale proceeds, as well as other available cash, to invest in or develop other technology-based ventures.

Employees

At December 31st, 2002, the Company employed 5 full time and 1 part-time independent contractor. To the best of the Company's knowledge, none of the Company's officers or directors is bound by restrictive covenants from prior employers. None of the Company's employees are represented by labor unions or other collective bargaining groups. The Company considers its relationship with its employees to be excellent.

Risk Factors of the Business

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Lack of Operating History

Our business is subject to the risks inherent in the establishment of a new business. Specifically, in formulating our business plan, we have relied on the judgment of our officers, directors and consultants but have not conducted any formal independent market studies concerning the demand for our services.

We have had limited revenues since inception. In 2002, we had revenues of $919,418. We have not been profitable, experiencing an accumulated loss of $2,805,361 through December 31st, 2002. Even if we become profitable in the future, we cannot accurately predict the level of, or our ability to sustain profitability. Because we have not yet been profitable and cannot predict any level of future profitability, you bear the risk of a complete loss of your investment in the event our business plan is unsuccessful.

The Company's ability to generate revenues and to achieve profitability and positive cash flow has depended on the successful commercialization of our ASP service, which has had limited success so far. Even if we eventually generate enough revenues from the sale of our services, we expect to incur significant operating losses over the next several years due to intense competition, a dearth of high volume email clients and low priced email software packages.

Intense Competition

The market for our services is intensely competitive, constantly evolving and subject to rapid technological change. We expect the intensity of competition to increase in the future. Increased competition may result in price reductions, changes in our pricing model, reduced gross margins and loss of market share, any one of which could materially damage our business. Many of our competitors have more resources and broader and deeper customer access than we do. In addition, many of these competitors have or can readily obtain extensive knowledge of our industry. Our competitors may be able to respond more quickly than we can to new technologies or changes in Internet user preferences and devote greater resources than we can to the development, promotion and sale of their services. We may not be able to maintain our competitive position against current and future competitors, especially those with significantly greater resources.

Dependence On Key Personnel

We depend on the continued service of our key technical, sales and senior management personnel and the loss of one or more of these individuals could cause us to incur increased operating expenses and divert other senior management time in searching for their replacements. We do not have employment agreements with any employee, nor do we maintain any key person life insurance policies for any of our key employees. The loss of any of our key technical, sales or senior management personnel could harm our business. In addition, we must attract, retain and motivate highly skilled employees. We face significant competition for individuals with the skills required to develop, market and support our services. We may not be able to recruit and retain sufficient numbers of highly skilled employees, and as a result our business could suffer.

Dependence on One Customer

During the last two fiscal years, substantially all of our ASP revenues were generated from email services provided to EquityAlert.com, Inc., the subsidiary of Innotech Corporation. The Company and Innotech Corporation have a common Director and majority shareholder.

Our Subsidiary May Not be Saleable

Due to the rapid deterioration of market valuations for many Internet based ventures, including our wholly owned subsidiary, our planned sale of Email Solutions, Inc. may not generate enough to recoup our development costs. The satisfactory performance, reliability and ongoing availability of email services and network infrastructure is critical to attracting a potential purchaser. As a result, the Company will continue to incur operating expenses while the Company searches for a suitable buyer.

We use internally developed software and systems for operating our email services. If we add new features and functionality to our services, we could be required to develop or license additional technologies. Our inability to add additional software and hardware or upgrade our technology or network infrastructure could cause unanticipated system disruptions, slower response times, impaired quality of the users' experience and delay the potential sale of Email Solutions Inc.

Inability to Obtain Funding

We may not be able to obtain additional funding when needed, which could limit future expansion and marketing opportunities and result in lower than anticipated revenues. We may require additional financing to further develop our business and to pursue other technology-based business opportunities. If the market price of the common stock declines, some potential financiers may either refuse to offer us any financing or will offer financing at unacceptable rates or unfavorable terms. If we are unable to obtain financing on favorable terms, or at all, this unavailability could prevent us from expanding our business, which could materially impact our future potential revenues.

Continued Control by Management.

You may lack an effective vote on corporate matters and management may be able to act contrary to your objectives. As of April 1st, 2003, our officers and board members own 14,782,948 of the 16,104,187 outstanding common stock, excluding stock options. If management votes together, it could influence the outcome of corporate actions requiring shareholder approval, including the election of directors, mergers and asset sales. As a result, new stockholders may lack an effective vote with respect to the election of directors and other corporate matters. Therefore, it is possible that management may take actions with respect to its ownership interest, which may not be consistent with your objectives or desires.

Adverse Effect From Future Sale of Stock

Future sales of large amounts of our common stock by existing stockholders pursuant to Rule 144 under the Securities Act of 1933, or following the exercise of outstanding options, could adversely affect the market price of our common stock. Substantially all of the outstanding shares of our common stock are freely tradable, without restriction or registration under the Securities Act, other than the sales volume reporting and transaction restrictions of Rule 144 applicable to shares held beneficially by persons who may be deemed to be affiliates. Our directors and executive officers and their family members are not under lockup letters or other forms of restriction on the sale of their common stock. The issuance of any or all of these additional shares upon exercise of options or warrants will dilute the voting power of our current stockholders on corporate matters and, as a result, may cause the market price of our common stock to decrease. Further, sales of a large number of shares of common stock in the public market could adversely affect the market price of the common stock and could materially impair our future ability to generate funds through sales of common stock or other equity securities.

We are considered a penny stock.

The Company's stock differs from many stocks, in that it is a "penny stock." The Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." These rules include, but are not limited to, Rules 3a5l-l, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6 and 15g-7 under the Securities and Exchange Act of 1934, as amended.

Because our securities probably constitute "penny stock" within the meaning of the rules, the rules would apply to us and our securities. The rules may further affect the ability of owners of our stock to sell their securities in any market that may develop for them. There may be a limited market for penny stocks, due to the regulatory burdens on broker-dealers. The market among dealers may not be active. Investors in penny stock often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make. Because of large dealer spreads, investors may be unable to sell the stock immediately back to the dealer at the same price the dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all.

Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;

- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;

- "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;

- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers.

Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than $2,000,000 (if the issuer has been in continuous operation for at least three years) or $5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than $6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

Potential Fluctuations in Quarterly Results

Significant variations in our quarterly operating results may adversely affect the market price of our common stock. Our operating results have varied on a quarterly basis during our limited operating history, and we expect to experience significant fluctuations in future quarterly operating results. These fluctuations have been and may in the future be caused by numerous factors, many of which are outside of our control. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and that you should not rely upon them as an indication of future performance. Also, it is likely that our operating results could be below the expectations of public market analysts and investors. This could adversely affect the market price of our common stock.

Intellectual Property

The Company relies on a combination of trademark, copyright law, trade secret protection, confidentiality agreements and other contractual arrangements with employees, vendors and others to protect its rights to intellectual property. Theses measures, however, may be inadequate to deter misappropriation of proprietary information. Failure to adequately protect its intellectual property could harm the Company's brand, devalue its proprietary content and affect the Company's ability to compete effectively.

Independent Directors.

We cannot guarantee our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, who are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company and its stockholders generally and the controlling officers, stockholders or directors.

Environmental Matters

The Company believes it conducts its business in compliance with all environmental laws presently applicable to its facilities. To date, there have been no expenses incurred by the Company related to environmental issues.

Government Regulation

The Company is not subject to any direct governmental regulation other than the securities laws and regulations applicable to all publicly owned companies, and laws and regulations applicable to businesses generally.

ITEM 2: DESCRIPTION OF PROPERTY

The Company's corporate office is located at Suite 216, 1628 West 1st Avenue, Vancouver, BC, V6J 1G1. These premises are owned by the wife and father, respectively, of the Company's Chairman and majority shareholder. At present, the Company pays no rent and the Company does not anticipate requiring any additional office space in the next six to twelve months. The Company co-locates its servers on a month-to-month basis at a cost of $1,000 per month, which is paid to an entity controlled by the Company s former President and CEO.

ITEM 3: LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders in the fourth quarter of 2002. It is our intention to schedule a shareholder s meeting to elect directors and transact any additional business in the second or third quarter of 2003.

PART II

ITEM 5: MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a)

Market Information

The Company's Common Stock is listed on the Over the counter Bulletin Board market under the symbol "ETHO". The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. The following table sets forth the high and low closing prices for the periods indicated:

<u>High</u>

<u>Low</u>

First Quarter 2001

$ 1.00

$ 0.53

Second Quarter 2001

$ 0.75

$ 0.63

Third Quarter 2001

$ 0.20

$ 0.20

Fourth Quarter 2001

$ 0.31

$ 0.25

First Quarter 2002

$ 0.15

$ 0.10

Second Quarter 2002

$ 0.11

$ 0.05

Third Quarter 2002

$ 0.06

$ 0.05

Fourth Quarter 2002

$ 0.09

$ 0.02

January 1, 2003-March 25, 2003

$ 0.51

$ 0.24

(b)

Holders

As at March 25th, 2003, there were approximately 311 registered stockholders of record of the Company's Common Stock.

(c)

Dividend Policy

The Company has never paid a dividend and does not anticipate paying any dividends in the foreseeable future. It is the present policy of the Board of Directors to retain the Company's earnings, if any, for the development of the Company's business. Our Board of Directors has the right to authorize the issuance of preferred stock, without further shareholder approval, the holders of which may have preferences over the holders of the Common Stock as to payment of dividends.

(d)

Securities Authorized for Issuance Under Equity Compensation Plans

Number of securities

remaining available for

Number of Securities to be

Weighted-average exercise future issuance under

issued upon exercise of

price of outstanding

equity compensation plans

outstanding options,

options, warrants and

(excluding securities

warrants and rights

rights

reflected in column (a))

Plan Category

(a)

(b)

(c)

Equity compensation plans

approved by security holders

1,505,000

$0.19

18,735,000

Equity compensation plans not

approved by security holders

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Total

1,505,000

$0.19

18,735,000

(e)

Recent Sales of Unregistered Securities

During the fiscal year ended December 31, 2002, we sold unregistered shares of our securities in the following transactions:

On December 13th, 2002, the Board of Directors authorized the issuance of 14,133,300 restricted common shares at a price of $0.02 per share in exchange for the satisfaction of debt owed to Mr. Harmel S. Rayat, a Director and majority shareholder of the Company. The debt was for a total of $282,666 due for management fees.

ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Forward-looking statements.

The following discussion should be read in conjunction with the financial statements and notes thereto included in Item 7 of this Form 10-KSB. Except for the historical information contained herein, the discussion in this Annual

Report on Form 10-KSB contains certain forward-looking statements that involve risk and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this document should be read as being applicable to all related forward-looking statements wherever they appear in this document. The Company's actual results could differ materially from those discussed here. Factors that could cause differences include those discussed in "Risk Factors of the Business", as well as discussed elsewhere herein.

Overview

Entheos Technologies, Inc., through its wholly owned subsidiary, Email Solutions, Inc., has developed a proprietary application capable of delivering over 1,000,000 customized email messages per hour, with the ability to handle upwards of 20,000,000 emails per day. While the Company continues to market its email ASP services, which includes the deployment, management and hosting of pre-packaged software applications through centrally located servers, to date the Company has realized limited success at attracting new clients due to strong competition and a dearth of high volume email clients, many of whom are either entrenched with existing vendors or have developed in house applications and infrastructures. As a result, the Company presently operates on a limited basis and plans to sell its ASP business and use the sale proceeds, as well as other available cash, to invest in or develop other technology-based ventures.

Factors that could affect future results.

Factors that might cause actual results, performance or achievements to differ materially from those projected or implied in such forward-looking statements include, among other things: (i) the impact of competitive products; (ii) changes in laws and regulations; (iii) adequacy and availability of insurance coverage; (iv) limitations on future financing; (v) increases in the cost of borrowings and unavailability of debt or equity capital; (v) the inability of the Company to gain and/or hold market share; (vi) exposure to and expense of resolving and defending claims and other litigation; (vii) consumer acceptance of the Company's products; (viii) managing and maintaining growth; (ix) customer demands; (x) market and industry conditions, (xi) the success of product development and new product introductions into the marketplace; (xii) the departure of key members of management, as well as other risks and uncertainties that are described from time to time in the Company's filings with the Securities and Exchange Commission.

Critical Accounting Policies.

Our discussion and analysis or plan of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, long-lived assets, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Valuation of Long-Lived Assets Including Goodwill and Purchased Intangible Assets

We review property, plant and equipment, goodwill and purchased intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Our asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. This approach uses our estimates of future market growth, forecasted revenue and costs, expected periods the assets will be utilized and appropriate discount rates. Such evaluations of impairment of long-lived assets including goodwill and purchased intangible assets are an integral part of, but not limited to, our strategic reviews of our business and operations performed in conjunction with restructuring actions. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value.

Bad Debts

We evaluate the collectibility of our trade receivables based on a combination of factors, including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we write off the amount to reduce the related receivable to the amount we reasonably believe is collectible. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Income Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. We currently have recorded a full valuation allowance against net deferred tax assets as we currently believe it is more likely than not that the deferred tax assets will not be realized. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

Contingencies

The Company may be subject to certain asserted and unasserted claims encountered in the normal course of business. It is the Company's belief that the resolution of these matters will not have a material adverse effect on our financial position or results of operations, however, we cannot provide assurance that damages that result in a material adverse effect on our financial position or results of operations will not be imposed in these matters. The Company accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

<u>Results of Operations</u>

Revenues. The Company generated revenues of $919,418 for the year ended December 31, 2002, versus $463,288 for the year ended December 31, 2001. This increase of $456,130, or 98%, is a direct result of a greater volume of emails being sent by the Company s principal client, EquityAlert.com, Inc., a subsidiary of Innotech Corporation, which became a client of the Company during the fourth quarter of 2000. The Company and Innotech Corporation have a common Director and majority shareholder.

Cost of Revenues. During 2002, the Company incurred $226,354 in cost of revenues, a decrease of 12% over 2001 expenses of $258,609. Gross margins increased to 75.4% in 2002 versus 44.2% in 2001, primarily attributable to lower staffing costs associated with the continued development of the Company s ASP emailing infrastructure.

General and Administrative Expenses. During 2002, the Company incurred $970,989 in general and administrative expenses, an increase of 74% over 2001 expenses of $558,771. The increase is primarily attributable to a bad debt expense of $459,798 incurred due to non-payment of services rendered by the Company s largest client, Equityalert.com, a subsidiary of Innotech Corporation. The Company and Innotech Corporation have a common Director and majority shareholder.

Interest Income. Interest income was $16,042 and $36,127 for the years ended December 31, 2002, and 2001, respectively. Interest earned in the future will be dependent on Company funding cycles and prevailing interest rates.

Provision for Income Taxes. As of December 31, 2002, the Company's accumulated deficit was $2,805,361 and as a result, there has been no provision for income taxes to date.

Net Loss. For the year ended December 31, 2002, the Company recorded a net loss of $262,401, or $0.10 per share, versus a net loss of $317,965, or $0.16 per share, for the same twelve-month period ending December 31, 2001.

Liquidity and Capital Resources

At December 31, 2002, the Company had a cash balance of $846,360 compared to a cash balance of $826,603 at December 31, 2001.

During 2002, net cash flows provided by operating activities was $131,131, versus net cash flows used in operating activities of $71,544 in 2001, primarily due to a decrease in related party accounts payable. During 2002, net cash flows used in investing activities was $107,623, primarily for equipment purchases, versus $40,000 the previous year, which was primarily due to a loan to an officer of the Company.

The Company s principal source of liquidity is cash in bank and for the next twelve months, the Company has sufficient cash to meet its operating needs. The Company incurs management fees from the services of its chairman and majority shareholder at the rate of $12,000 per month, which will result in a decrease in the Company s cash position unless the debt is converted to equity in lieu of cash paid. During the year ended December 31st, 2002, the Company paid $50,000 in cash for management fees and converted accrued management fees of $282,666 to equity.

Due to the "start up" nature of the Company's businesses, the Company expects to incur losses as it expands. The Company expects to raise additional funds through private or public equity investment in order to expand the range and scope of its business operations. The Company will seek access to private or public equity but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. See "Risk Factors of the Business" for additional details.

Plan of Operation

The Company s principal source of liquidity is cash in bank, which we anticipate will be sufficient to fund our operations for the next twelve months. The Company's future funding requirements will depend on numerous factors, including the time and investment required to source out and invest in promising technology-based ventures, to recruit and train qualified management personnel and the Company's ability to compete against other, better capitalized corporations in similar businesses.

Due to the "start up" nature of the Company's businesses, the Company expects to incur losses as it expands. The Company expects to raise additional funds through private or public equity investment in order to expand the range and scope of its business operations. The Company will seek access to private or public equity but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. See "Risk Factors" for additional details.

<u>Related Party Transactions</u>

Officer Loans - As at December 31st, 2002, $43,267 was owed by the Company s former President and CEO. The loan, which was made on September 10, 2001, is for $40,000, plus $3,267 in accrued interest. The terms of the loan include interest at 6.25 percent per annum, with both the principal and interest due at maturity, which is September 10th, 2003.

Marketable Equity Securities - Marketable equity securities at December 31st, 2002, represents the fair market value of 600,625 shares of common stock of eDeal.net, Inc., a public Company that trades on the pink sheets. At December 31, 2002, the fair marked value was $60,063 and an unrealized gain of $12,013 was charged to accumulated other comprehensive income representing the difference between the stated market value as determined by the most recently traded price at the balance sheet date, which was $0.10 per share. On August 7th, 2002, the Company agreed to accept 600,625 shares of restricted common stock from eDeal.net in lieu of the cash payment of $48,050 due from eDeal.net at June 30th, 2002 for web development and web hosting services rendered by the Company. The number of eDeal.net shares issued to satisfy its debt to the Company was calculated based on the most recent quoted market closing price of eDeal.net s common stock ($0.08 per share.) The Director and majority stockholder of Entheos is also the Director, Secretary and Treasurer of eDeal.net.

Severance Pay - The Company agreed to pay its former President and CEO, $50,000 as severance pay after serving as a Director, President and CEO since May 14th, 1999. This amount is reflected on the Company s balance sheet as at December 31st, 2002, under Accrued Expenses - Related Party.

Management and Consulting Fees - During 2002 and 2001, the Company charged $187,333 and $144,000, respectively, to operations for management and consulting fees incurred for services rendered by the Chairman and majority stockholder. During the year ended December 31st, 2002, the Company converted $282,666 of accounts payable into 14,133,300, or $0.02 per share. The conversion price was based on the fair market value of the common stock on the date of issuance. The total amount converted represented an accounts payable balance at December 31st, 2001 of $138,666 and $144,000 represented 2002 management fees. During 2001, the Company paid $22,847 to an employee who is also a stockholder for consulting services rendered. During 2003, the Company will incur a management fee of $12,000 per month for the services of its Chairman and majority shareholder.

Revenues - Substantially all (98%) of the Company s revenues for 2002 were derived from entities (edeal.net, Inc. and Innotech Corporation) whose director and majority shareholder is also the Company s majority shareholder and director. All of the Company s 2001 revenues were derived from Innotech Corporation. During the fourth quarter of 2002, the Company wrote off $459,798 in accounts receivable representing amounts due from Innotech, which no longer has the ability to repay.

Offices - The Company's corporate offices, located at Suite 216, 1628 West 1st Avenue, Vancouver, BC, V6J 1G1, are jointly owned by the wife and father of the Company's Chairman and majority shareholder. At present, the Company pays no rent. The Company co-locates its servers on a month to month basis at a cost of $1,000 per month, which is paid to an entity controlled by the Company s former President and CEO.

Stock Options - On December 20th, 2002, the Company s Board of Directors agreed to establish 1,500,000 stock options out of the 20,000,000 common shares reserved for issuance under the Company s 2001 Stock Option Plan, with terms and conditions, such as expiration dates and vesting periods being defined and agreed upon in individual stock option agreements at a later date. These terms and conditions were finalized at a Board of Directors meeting held on February 11th, 2003, when the Company s Board of Directors agreed to enter into 10 year NonStatutory Stock Option Agreements with certain individuals.

On February 11th, 2003, the Company granted to certain individuals 1,500,000 options to purchase common stock at $0.06 per share, expiring 10 years from the grant date. Of the 1,500,000 stock options issued, 1,020,000 were granted to current Directors of the Company and 170,000 stock options were granted to the former President and director of the Company. The remaining options granted represented those issued to three employees of the Company.

The option price was based on the closing price of the Company s shares on December 16th, 2002. All of the options are exercisable in three (3) equal installments of thirty-three and one-third percent (33 1/3%), the first installment to be exercisable immediately, with an additional thirty-three and one-third percent (33 1/3%) of the shares becoming exercisable on each of the two (2) successive anniversary dates.

The Board of Directors also authorized the Company to grant 5,000 options to purchase common stock to its current President at $0.51 per share based on the closing price of the Company s shares on January 24th, 2003, and expiring 10 years from the grant date. The options become exercisable in two equal installments of fifty percent (50%), with the first installment becoming exercisable immediately and the balance becoming exercisable in 180 days.

The Company plans to register all options under its 2001 Stock Option Plan under Form S-8.

Going Concern

The Company has incurred net operating losses since inception. The Company faces all the risks common to companies in their early stages of development, including under capitalization and uncertainty of funding sources, high initial expenditure levels, uncertain revenue streams, and difficulties in managing growth. The Company s recurring losses raise substantial doubt about its ability to continue as a going concern. The Company s financial statements do not reflect any adjustments that might result from the outcome of this uncertainty. The Company expects to incur losses as it expands its businesses and will require additional funding during 2003. The satisfaction of our cash hereafter will depend in large part on the Company s ability to successfully raise capital from external sources to pay for planned expenditures and to fund operations.

ITEM 7: FINANCIAL STATEMENTS

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Shareholders of

Entheos Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Entheos Technologies Inc. (a Nevada Corporation) (the Company) and Subsidiaries as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the two preceding years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits of the financial statements provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002, and the consolidated results of its operations and its consolidated cash flows for the preceding two years then ended, in conformity with generally accepted accounting principles in the United States.

Clancy and Co., P.L.L.C.

Phoenix, Arizona

February 20, 2003

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2002

ASSETS

Current Assets	
Cash	$ 846,360

Security Deposits	9,290
Total Current Assets	855,650
Property and Equipment, Net (Note 2)	184,281
Other Assets	
Officer Loans Related Party (Note 3)	43,267
Marketable Equity Securities Related Party (Note 3)	60,063
Total Other Assets	103,330
Total Assets	$ 1,143,261
LIABILITIES AND STOCKHOLDERS EQUITY	
Current Liabilities	
Accounts Payable	$ 23,027
Accrued Expenses Related Party (Note 3)	50,000
Capital Lease Obligation Current Portion (Note 4)	9,044
Total Current Liabilities	82,071
Long-Term Liabilities	
Capital Lease Obligation Noncurrent Portion (Note 4)	15,456
Total Liabilities	97,527
Commitments and Contingencies (Note 8)	
Stockholders' Equity	
Preferred Stock: $0.0001 Par Value, Authorized: 10,000,000	
Issued and outstanding: None	None
Common Stock: $0.00001 Par Value, Authorized: 200,000,000, Issued and Outstanding, 16,104,187	161
Additional Paid-In Capital	3,838,921
Accumulated Deficit	(2,805,361)
Accumulated Other Comprehensive Income	12,013
Total Stockholders' Equity	1,045,734
Total Liabilities and Stockholders Equity	$ 1,143,261

The accompanying notes are an integral part of these financial statements

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ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Revenues (Related party 2002: $904,418 and 2001: $463,288) (Note 3)	$ 919,418	$ 463,288
Costs of Revenues	226,354	258,609
Gross Margin	693,064	204,679
General and Administrative Expenses		
Management and Consulting Fees Related Party (Note 3)	187,333	166,847
Officer Wages	113,760	21,253
Bad Debt Expenses (Note 1 and 3)	459,798	-
Depreciation and Amortization	125,320	139,635
Other Operating Expenses	84,778	231,036
Total General and Administrative Expenses	970,989	558,771
Operating Loss	(277,925)	(354,092)
Other Income (Expense)		
Interest Income	16,042	36,127
Interest Expense	(518)	-
Total Other Income	15,524	36,127
Net Loss Before Provision for Income Taxes	(262,401)	(317,965)
Provision for Income Taxes (Note 5)	-	-
Net Loss Available to Common Stockholders	$ (262,401)	$ (317,965)

Basic and Diluted Loss Per Common Share	$ (0.10)	$ (0.16)
Weighted Average Number of Common Shares Outstanding	2,667,872	1,970,887

The accompanying notes are an integral part of these financial statements

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ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS DECEMBER 31, 2002 AND 2001

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2000	-	1,970,887	$20	$3,556,396	$(2,224,995)		$1,331,421
Net Loss					(317,965)		(317,965)
Balance, December 31, 2001	-	1,970,887	20	3,556,396	(2,542,960)	-	1,013,456
Conversion of Debt to Equity		14,133,300	141	282,525			282,666
Unrealized Gains						12,013	12,013
Net Loss					(262,401)		(262,401)
Balance, December 31, 2002	-	16,104,187	$ 161	$3,838,921	$ (2,805,361)	$12,013	$1,045,734

The accompanying notes are an integral part of these financial statements.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash Flows From Operating Activities		
Net Loss	$ (262,401)	$ (317,965)
Adjustments to Reconcile Net Loss to Net Cash Provided by		
(Used In) Operating Activities		
Depreciation and Amortization	125,319	139,635
Accounts Payable Converted to Equity	282,666	-
Revenue recognized for services rendered	(48,050)	-
Write off Goodwill	-	31,250
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	152,009	1,702
(Increase) Decrease in Prepaid Expenses	2,721	(2,721)
(Increase) Decrease in Security Deposits	(867)	(8,423)
(Increase) Decrease in Accrued Interest Receivable	(2,500)	(767)
Increase (Decrease) in Accounts Payable Related Party	(188,666)	100,667
Increase (Decrease) in Accrued Expenses Related Party	50,000	-
Increase (Decrease) in Accounts Payable	20,900	(14,922)
Total Adjustments	393,532	246,421
Net Cash Flows Provided By (Used In) Operating Activities	131,131	(71,544)
Cash Flows From Investing Activities		
Advances to Officer Loan	-	(40,000)
Purchase of Property and Equipment	(107,623)	-
Net Cash Flows Used In Investing Activities	(107,623)	(40,000)
Cash Flows From Financing Activities		

Principal Payments on Capital Lease Obligations	(3,751)	-
Net Cash Flows Used in Financing Activities	(3,751)	-
Increase (Decrease) in Cash and Cash Equivalents	19,757	(111,544)
Cash and Cash Equivalents, Beginning of Year	826,603	938,147
Cash and Cash Equivalents, End of Year	$ 846,360	$ 826,603
Cash paid for interest and income taxes:	-	-
Supplemental noncash investing and financing activities:		
Fixed Assets Acquired Under Capital Lease	$ 28,251	-
Accounts Payable Converted to Equity	$282,666	-

The accompanying notes are an integral part of these financial statements.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Net cash provided by investing activities

32,959

26,389

Cash flows from financing activities

Borrowings on Line of Credit

808

—

Repayments on Line of Credit

(808
)

—

Repayments on short-term borrowings and notes payable, related party

—

(14,496
)
Short-term borrowing loan costs and debt prepayment penalty

—

(807
)
Repurchase of common shares to satisfy tax withholdings

(518
)

(192
)
Dividends paid

(10,458
)

—

Repurchase of common shares

(13,024
)

—

Net cash used in financing activities

(24,000
)

(15,495
)

Decrease in Cash and Cash Equivalents and Restricted Cash

(121
)

(4,601
)
Cash and Cash Equivalents and Restricted Cash, beginning of period

26,944

20,973

Cash and Cash Equivalents and Restricted Cash, end of period

$
26,823

$
16,372

Supplemental disclosure of cash flow information:

Cash paid for interest

$
2,391

$
2,899

Cash paid for income taxes

$
1,160

$
46

Supplemental disclosure of non-cash investing and financing activities:

Stock award reclassification (liability to equity)

$
—

$
899

Settlement of RCM6 note payable

$
—

$
13,234

Non-cash reduction of equity method investment

$
—

$
11,156

Dividends payable

$
93

$
—

See Notes to the Condensed Consolidated Financial Statements.

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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") is a Delaware corporation with its principal office located in Highlands Ranch, Colorado. The Company is principally engaged in providing environmental and emissions control equipment, technologies and specialty chemicals to the coal-burning electric power generation industry. 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 Tinuum Group, LLC, a Colorado limited liability company ("Tinuum Group"). Such technologies allow Tinuum Group to provide various solutions to reduce mercury and nitrogen oxide ("NO_x") emissions at select coal-fired power generators through the burning of Refined Coal ("RC"). The Company’s sales occur principally throughout the United States. See Note 10 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 accounting principles generally accepted in the United States ("U.S. GAAP") and with Article 10 of Regulation S-X of the Securities and Exchange Commission. 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 ("Quarterly Report") are presented on a consolidated basis and include ADES and its direct and indirect, wholly-owned subsidiaries. Also included within the unaudited Condensed Consolidated Financial Statements are the Company's investments, Tinuum Group, Tinuum Services, LLC ("Tinuum Services"), and GWN Manager, LLC ("GWN Manager"), which are accounted for using the equity method of accounting. As discussed in Note 2, the Company sold its equity investment in RCM6, LLC ("RCM6") in March 2016, which was also accounted for using the equity method prior to the sale. 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 for all periods presented in this Quarterly Report.
In the opinion of management, these Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. These Condensed Consolidated Financial Statements of ADES should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"). Significant accounting policies disclosed therein have not changed.
Earnings Per Share
Basic earnings per share is computed using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividend and participating rights in undistributed earnings. The Company's restricted stock awards ("RSA's") granted prior to December 31, 2016 contain non-forfeitable rights to dividends or dividend equivalents and are deemed to be participating securities. RSA's granted subsequent to December 31, 2016 do not contain non-forfeitable rights to dividends and are not deemed to be participating securities.
Under the two-class method, net income for the period is allocated between common stockholders and the holders of the participating securities based on the weighted-average number of common shares outstanding during the period, excluding participating, unvested RSA's ("common shares"), and the weighted-average number of participating unvested RSA's outstanding during the period, respectively. The allocated, undistributed income for the period is then divided by the weighted-average number of common shares and participating, unvested RSA's outstanding during the period to arrive at basic earnings per common share and participating security for the period, respectively. Because the participating, unvested RSA's possess substantially the same rights to undistributed earnings as common shares outstanding, there is no difference between the calculated basic earnings 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 per share attributable to participating securities in the Consolidated Statements of Operations.

Diluted earnings per share is computed in a manner consistent with that of basic earnings per share, while considering other potentially dilutive securities. Potentially dilutive securities consist of both unvested, participating and non-participating RSA's, as well as outstanding options to purchase common stock ("Stock Options") and contingent performance stock units ("PSU's") (collectively, "Potential Dilutive Shares"). The dilutive effect, if any, for non-participating RSA's, Stock Options and PSU's is computed using the treasury stock method. For participating RSA's, the dilutive effect, if any, is determined using the greater of dilution as calculated under the treasury stock method or the two-class method. Potential Dilutive Shares are excluded from diluted earnings per share when their effect is anti-dilutive. When there is a net loss for a period, all Potential Dilutive Shares are anti-dilutive and are excluded from the calculation of diluted loss per share for that period.

Each PSU represents a contingent right to receive shares of the Company's common stock, and the number of shares may range from zero to two times the number of PSU's granted on the award date depending upon the price performance of the Company's common stock as measured against a general index and a specific peer group index over requisite performance periods. The number of Potential Dilutive Shares related to PSU's is based on the number of shares of the Company's common stock, if any, that would be issuable at the end of the respective reporting period, assuming that the end of the reporting period is the end of the contingency period applicable to such PSU's. See Note 7 for additional information related to PSU's.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2017	2016	2017	2016
Net income	$5,792	$9,612	$20,888	$21,848
Less: Dividends and undistributed income allocated to participating securities	32	133	141	229
Income attributable to common stockholders	$5,760	$9,479	$20,747	$21,619
Basic weighted-average common shares outstanding	20,808	21,740	21,569	21,926
Add: dilutive effect of equity instruments	46	358	29	283
Diluted weighted-average shares outstanding	20,854	22,098	21,598	22,209
Earnings per share - basic	$0.28	$0.44	$0.96	$0.99
Earnings per share - diluted	$0.28	$0.43	$0.96	$0.97

For the three and nine months ended September 30, 2017 and 2016, options to purchase 0.2 million shares of common stock for each of the periods presented were outstanding, but were not included in the computation of diluted net income per share because the exercise price exceeded the average price of the underlying shares and the effect would have been anti-dilutive. For the three and nine months ended September 30, 2017 and 2016, options to purchase of 0.4 million, 0.2 million, 0.4 million and 0.2 million shares of common stock, respectively, which vest based on the Company achieving specified performance targets, were outstanding, but not included in the computation of diluted net income per share because they were determined not to be contingently issuable.

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 2016 Form 10-K. Actual results could differ from these estimates.

Reclassifications

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

New Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 and its related amendments are effective for reporting periods (including interim periods) beginning after December 31, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption ("modified retrospective method"). The Company will adopt the standard under the modified retrospective method effective January 1, 2018, which will be reflected in its financial statements as of and for the three months ended March 31, 2018.

As of the date of this filing, the Company has materially completed its assessment of ASU 2014-09 for the impact to the financial statements as of the adoption date, completed a detailed review of individual customer contracts, continued its review of controls and procedures that may need to be revised or added from the adoption of the standard, and updated its timeline for completion of the various phases of the implementation plan for the standard, including documentation of the standard's financial statement impact at adoption, financial statement presentation and disclosure changes and reviews over potential changes to existing revenue recognition policies, controls and procedures. As a result, the Company may revise its initial quantitative and qualitative assessments of the financial impacts on its current revenue streams and related costs.

Based on the Company's current assessment of ASU 2014-09, it has determined that the timing of revenue recognition for equipment sales will be accelerated and all deferred revenue and deferred project costs on all uncompleted equipment sales projects as of December 31, 2017 will be derecognized through a cumulative effect adjustment, which will reduce the Accumulated deficit as of the adoption date in the amount of approximately $2.2 million. In addition, as of the adoption date, the Company anticipates derecognizing deferred revenue and deferred project costs for a technology licensing arrangement through a cumulative effect adjustment, which will reduce the Accumulated deficit in the amount of approximately $1.7 million. The Company currently estimates that there will be no material financial statement impact as of the adoption date from either chemical sales or consulting services.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Subtopic 825-10) - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This 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. The Company does not believe this standard will have a material impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), 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 be applied under 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 June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in ASU 2016-13 replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those years, and must be adopted under a modified retrospective method approach. Entities may adopt ASU 2016-13 earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those years. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures. The Company does not believe this standard will have a material impact on the Company's financial statements and disclosures.

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In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 provides guidance about which changes to the terms or conditions of a stock-based payment award require an entity to apply modification in Topic 718. Under the standard, an entity does not apply modification accounting if the fair value, vesting conditions, and classification of the stock-based awards are the same immediately before and after the modification. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this standard. ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for which financial statements have not yet been issued. The Company elected to adopt ASU 2017-09 effective with the beginning of its second fiscal quarter of 2017, April 1, 2017, and there was no material impact on the Company's financial statements or disclosures.

Note 2 - Equity Method Investments

Tinuum Group, LLC

The Company's ownership interest in Tinuum Group was 42.5% as of September 30, 2017 and December 31, 2016. Tinuum Group supplies technology equipment and technical services to cyclone-fired and other boiler users, but Tinuum Group's primary purpose is to put into operation facilities that produce and sell RC that lower emissions and therefore qualify for tax credits available under Section 45 of the IRC ("Section 45 tax credits"). Tinuum Group 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 Tinuum Group's economic performance and has therefore accounted for the investment under the equity method of accounting. The Company determined that the voting partners of Tinuum Group have identical voting rights, equity control interests and board control interests, and therefore, concluded that the power to direct the activities that most significantly impact Tinuum Group's economic performance was shared.

The following table summarizes the results of operations of Tinuum Group:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Gross profit	$23,812	$22,645	$70,895	$70,325
Operating, selling, general and administrative expenses	5,174	4,996	14,975	15,464
Income from operations	18,638	17,649	55,920	54,861
Other expenses	(3,331)	(3,583)	(4,278)	(7,618)
Class B preferred return	(384)	(905)	(1,526)	(3,101)
Loss attributable to noncontrolling interest	11,953	8,881	29,240	14,788
Net income available to Class A members	$26,876	$22,042	$79,356	$58,930
ADES equity earnings from Tinuum Group	$11,050	$9,775	$33,363	$28,050

As of September 30, 2017 and December 31, 2016, the amount of Tinuum Group's temporary Class B preferred equity was $7.4 million and $18.3 million, respectively.

The difference between the Company's proportionate share of Tinuum Group's Net income available to Class A members (at its equity interest of 42.5%) as presented in the table below and the Company's earnings from its Tinuum Group equity method investment as reported in the Condensed Consolidated Statements of Operations relates to the Company receiving distributions in excess of the carrying value of the equity investment, and therefore recognizing such excess distributions as equity method earnings in the period the distributions occur, as discussed below.

As shown in the tables below, the Company’s carrying value in Tinuum Group was reduced to zero for the three and nine months ended September 30, 2017, as cumulative cash distributions received from Tinuum Group exceeded the Company's pro-rata share of cumulative earnings in Tinuum Group. The carrying value of the Company's investment in Tinuum Group shall remain zero as long as the cumulative amount of distributions received from Tinuum Group continues to exceed the Company's cumulative pro-rata share of Tinuum Group's Net income available to Class A members. For periods during which the ending balance of the Company's investment in Tinuum Group is zero, the Company only recognizes equity earnings from Tinuum Group to the extent that cash distributions are received from Tinuum Group during the period. For periods during which the ending balance of the Company's investment is greater than zero (e.g., when the cumulative earnings in Tinuum Group exceeds cumulative cash distributions received), the Company recognizes its pro-rata share of Tinuum Group's Net income available to Class A members for the period, less any amount necessary to recover the cumulative earnings short-fall balance as of the end of the immediately preceding period. During the three and nine months ended September 30, 2017, the Company's cumulative amount of distributions received from Tinuum Group exceeded the Company's cumulative pro-rata share of Tinuum Group's Net income available to Class A members. As such, the Company recognized equity earnings from Tinuum Group for the three and nine months ended September 30, 2017 of $11.1 million and $33.4 million, respectively. During the three and nine months ended September 30, 2016, the Company recognized equity earnings from Tinuum Group in the amount of $9.8 million and $28.1 million, respectively. As of September 30, 2017 and 2016, the Company's carrying value in Tinuum Group was zero and zero, respectively.

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

The following tables presents the Company's investment balance, equity earnings and cash distributions in excess of the investment balance for the three and nine months ended September 30, 2017 and 2016 (in thousands):

Description	Date(s)	Investment balance	ADES equity earnings (loss)	Cash distributions	Memorandum Account: Cash distributions and equity earnings in (excess) of investment balance
Beginning balance	12/31/2016	$ —	$—	$ —	$ (9,894)
ADES proportionate share of income from Tinuum Group (1)	First Quarter	10,457	10,457	—	—
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	First Quarter	(9,894)	(9,894)	—	9,894
Cash distributions from Tinuum Group	First Quarter	(13,175)		13,175	—
Adjustment for current year cash distributions in excess of investment balance	First Quarter	12,612	12,612	—	(12,612)
Total investment balance, equity earnings (loss) and cash distributions	3/31/2017	$ —	$ 13,175	$ 13,175	$ (12,612)
ADES proportionate share of income from Tinuum Group (1)	Second Quarter	$ 11,761	$ 11,761	$ —	$ —
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	Second Quarter	(11,761)	(11,761)	—	11,761
Cash distributions from Tinuum Group	Second Quarter	(9,138)	—	9,138	—
Adjustment for current year cash distributions in excess of investment balance	Second Quarter	9,138	9,138	—	(9,138)
Total investment balance, equity earnings (loss) and cash distributions	6/30/2017	$ —	$ 9,138	$ 9,138	$ (9,989)
ADES proportionate share of income from Tinuum Group (1)	Third Quarter	$ 11,393	$ 11,393	$ —	$ —
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	Third Quarter	(9,989)	(9,989)	—	9,989
Cash distributions from Tinuum Group	Third Quarter	(11,050)	—	11,050	—
Adjustment for current year cash distributions in excess of investment balance	Third Quarter	9,646	9,646	—	(9,646)
Total investment balance, equity earnings (loss) and cash distributions	9/30/2017	$ —	$ 11,050	$ 11,050	$ (9,646)

Description	Date(s)	Investment balance	ADES equity earnings (loss)	Cash distributions	Memorandum Account: Cash distributions and equity earnings in (excess) of investment balance
Beginning balance	12/31/2015	$ —	$—	$ —	$ (3,263)
ADES proportionate share of income from Tinuum Group [(1)]	First Quarter	8,706	8,706	—	—
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	First Quarter	(3,263)	(3,263)	—	3,263
Cash distributions from Tinuum Group	First Quarter	(3,400)	—	3,400	—
Total investment balance, equity earnings (loss) and cash distributions	3/31/2016	$ 2,043	$5,443	$ 3,400	$ —
ADES proportionate share of income from Tinuum Group [(1)]	Second Quarter	$ 6,758	$6,758	$ —	$ —
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	Second Quarter	—	—	—	—
Cash distributions from Tinuum Group	Second Quarter	(14,875)	—	14,875	—
Adjustment for current year cash distributions in excess of investment balance	Second Quarter	6,074	6,074	—	(6,074)
Total investment balance, equity earnings (loss) and cash distributions	6/30/2016	$ —	$12,832	$ 14,875	$ (6,074)
ADES proportionate share of income from Tinuum Group [(1)]	Third Quarter	$ 9,300	$9,300	$ —	$ —
Recovery of prior cash distributions in excess of investment balance (prior to cash distributions)	Third Quarter	(6,074)	(6,074)	—	6,074
Cash distributions from Tinuum Group	Third Quarter	(9,775)	—	9,775	—
Adjustment for current year cash distributions in excess of investment balance	Third Quarter	6,549	6,549	—	(6,549)
Total investment balance, equity earnings (loss) and cash distributions	9/30/2016	$ —	$9,775	$ 9,775	$ (6,549)

(1) For the three and nine months ended September 30, 2017 and 2016, the amounts of the Company's 42.5% proportionate share of Net Income available to Class A members as shown in the table above differ from mathematical calculations of the Company’s 42.5% equity interest in Tinuum Group multiplied by the amounts of Net Income available to Class A members as shown in the table above of Tinuum Group results of operations due to adjustments related to the Redeemable Class B preferred return and, for the three months ended March 31, 2016, the elimination of Tinuum Group's earnings attributable to RCM6, of which the Company sold its 24.95% equity interest on March 3, 2016.

Tinuum Services, LLC

The Company has a 50% voting and economic interest in Tinuum Services, which is equivalent to the voting and economic interest of NexGen Refined Coal, LLC ("NexGen"). The Company has determined that Tinuum Services is not a VIE and has evaluated its consolidation analysis under the Voting Interest Model. Because the Company does not own greater than 50% of the outstanding voting shares, either directly or indirectly, it has accounted for its investment in Tinuum Services under the equity method of accounting. The Company’s investment in Tinuum Services as of September 30, 2017 and December 31, 2016 was $3.0 million and $4.0 million, respectively.

The following table summarizes the results of operations of Tinuum Services:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Gross loss	$(17,344)	$(15,848)	$(47,472)	$(42,946)
Operating, selling, general and administrative expenses	34,872	34,278	106,825	101,687
Loss from operations	(52,216)	(50,126)	(154,297)	(144,633)
Other income (expenses)	34	27	103	(13)
Loss attributable to noncontrolling interest	54,305	52,019	159,627	149,792
Net income	$2,123	$1,920	$5,433	$5,146
ADES equity earnings from Tinuum Services	$1,061	$960	$2,717	$2,573

Included within the Consolidated Statements of Operations of Tinuum Services for the three and nine months ended September 30, 2017 and 2016, respectively, were losses related to VIE's of Tinuum Services. These losses do not impact the Company's equity earnings from Tinuum Services as 100% of those losses are removed from the net losses of Tinuum Services as they are losses attributable to a noncontrolling interest.

Other

On March 3, 2016, the Company sold its 24.95% membership interest in RCM6 for a cash payment of $1.8 million and the assumption, by the buyer, of an outstanding note payable made by the Company in connection with its purchase of RCM6 membership interests from Tinuum Group. In doing so, the Company recognized a gain on the sale of $2.1 million for the nine months ended September 30, 2016, which is included within the Other line item in the Condensed Consolidated Statements of Operations. As a result of the sale of its ownership interest, the Company ceased to be a member of RCM6 and, as such, is no longer subject to any quarterly capital calls and variable payments to RCM6. In addition, the Company has no future obligations related to the previously recorded note payable. However, the Company still receives its pro-rata share of income and cash distributions through its ownership in Tinuum Group based on the RCM6 lease payments made to Tinuum Group.

Prior to the sale of its ownership interest, the Company recognized equity losses related to its investment in RCM6 of $0.6 million for the three months ended March 31, 2016.

On July 27, 2017, the Company purchased a 50% membership interest in GWN Manager from Tinuum Group for an upfront payment of $0.1 million. GWN Manager owns a 0.2% membership interest in a subsidiary of Tinuum Group, which owns a single RC facility that produces RC that qualifies for Section 45 tax credits. Tinuum Group sold 49.9% of the subsidiary that owns the RC facility to an unrelated third party and retained ownership of the remaining 49.9%. GWN Manager is subject to monthly capital calls based on estimated working capital needs.

The Company has determined that GWN Manager is not a VIE and has evaluated the consolidation analysis under the Voting Interest Model. Because the Company does not own greater than 50% of the outstanding voting shares, either directly or indirectly, it has accounted for its investment in GWN Manager under the equity method of accounting.

As September 30, 2017, the Company's ownership in GWN Manager was 50%. The Company's investment in GWN Manager as of September 30, 2017, was $0.1 million.

The following table details the components of the Company's respective equity method investments included within the Earnings 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)	2017	2016	2017	2016
Earnings from Tinuum Group	$11,050	$9,775	$33,363	$28,050
Earnings from Tinuum Services	1,061	960	2,717	2,573
Earnings (losses) from other	9	—	9	(557)
Earnings from equity method investments	$12,120	$10,735	$36,089	$30,066

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The following table details the components of the cash distributions from the Company's respective equity method investments included in the Condensed Consolidated Statements of Cash Flows. Distributions from equity method investees are reported on the Condensed Consolidated Statements of Cash Flows as "Distributions from equity method investees, 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 from equity method investees in excess of cumulative earnings" within Investing cash flows.

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Distributions from equity method investees, return on investment		
Tinuum Group	$—	$3,400
Tinuum Services	3,675	3,450
	$3,675	$6,850
Distributions from equity method investees in excess of investment basis		
Tinuum Group	$33,363	$24,650
	$33,363	$24,650

Note 3 - Borrowings

Line of Credit

On November 30, 2016, ADA-ES, Inc., a wholly-owned subsidiary of the Company ("ADA"), as borrower, the Company, as guarantor, and a bank (the "Lender") entered into an amendment (the "Tenth Amendment") to the 2013 Loan and Security Agreement (the "Line of Credit" or "LOC"). The Tenth Amendment increased the Line of Credit to $15 million, extended the maturity date of the Line of Credit to September 30, 2017 and permitted the Line of Credit to be used as collateral (in place of restricted cash) for letters of credit ("LC's") related to equipment projects, the Royalty Award, as defined in Note 5, and certain other agreements. Additionally, this amendment secured the Line of Credit with amounts due to the Company from an additional existing Refined Coal facility lease, which amounts also factor into the borrowing base limitation, and amended certain financial covenants. Pursuant to the Tenth Amendment, the Company was required to maintain a deposit account with the Lender, initially with a minimum balance of $6.0 million, which was reduced to $3.0 million based on the Company meeting certain conditions and maintaining minimum trailing twelve month EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the Tenth Amendment) of $24.0 million. The minimum deposit balance was classified as Restricted Cash on the Condensed Consolidated Balance Sheets as of December 31, 2016.

On September 30, 2017, ADA, as borrower, the Company, as guarantor, and the Lender entered into an amendment (the "Eleventh Amendment") to the LOC. The Eleventh Amendment decreased the LOC to $10 million due to decreased collateral requirements for the Company's outstanding LC's, extended the maturity date of the LOC to September 30, 2018, and permitted the LOC to be used as collateral (in place of restricted cash) for LC's up to $8 million related to equipment projects, the Royalty Award and certain other agreements. Additionally, under the Eleventh Amendment there is no minimum balance requirement based on the Company meeting certain conditions and maintaining minimum trailing twelve-month EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the Eleventh Amendment) of $24.0 million.

As of September 30, 2017, there were no outstanding borrowings under the Line of Credit, however, LC's in the aggregate amount of $4.5 million were secured under the Line of Credit, resulting in borrowing availability of $5.5 million and LC availability of $3.5 million.

Letters of Credit

The Company has LC's related to equipment projects, the Royalty Award and certain other agreements. During March 2017, a customer drew on an LC related to an equipment system in the amount of $0.8 million, which was funded by borrowing availability under the LOC. The Company subsequently repaid this amount to the Lender as of March 31, 2017. The Company is contesting the draw on this LC and is pursuing actions to recover this amount from the customer. This amount is included in Other long-term assets on the Condensed Consolidated Balance Sheets.

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The following tables summarize the LC's outstanding and collateral, by asset type, reported on the Condensed Consolidated Balance Sheets:

	As of September 30, 2017		
(in thousands)	LC Outstanding	Utilization of LOC Availability	Restricted Cash
Royalty Award	$4,500	$ 4,500	$ —
Total LC outstanding	$4,500	$ 4,500	$ —

	As of December 31, 2016		
(in thousands)	LC Outstanding	Utilization of LOC Availability	Restricted Cash
Contract performance - equipment systems	$1,855	$ 1,776	$ 86
Royalty Award	7,150	—	7,150
Total LC outstanding	$9,005	$ 1,776	$ 7,236

Credit Agreement

On June 30, 2016, the Company, the required lenders and the administrative lender under a $15.0 million short-term loan (the "Credit Agreement") agreed to terminate the Credit Agreement prior to the maturity date of July 8, 2016, effective upon the Company’s prepayment on June 30, 2016 of $9.9 million, which was comprised of the total principal balance of the loan and advances made to or for the benefit of the Company, together with all accrued but unpaid interest, and the total amount of all fees, costs, expenses and other amounts owed by the Company thereunder, including a prepayment premium.

Tinuum Group - RCM6 Note Payable

The Company acquired a 24.95% membership interest in RCM6 from Tinuum Group in February 2014 through an up-front payment and a note payable (the "RCM6 Note Payable"). Due to the payment terms of the note purchase agreement, the RCM6 Note Payable periodically added interest to the outstanding principal balance. The stated rate associated with the RCM6 Note Payable was 1.65% and the effective rate of the RCM6 Note Payable at inception was 20%. As discussed in Note 2, on March 3, 2016, the Company sold its 24.95% membership interest in RCM6 and, as a result, the Company has no future obligations related to the previously recorded RCM6 Note Payable.

DSI Business Owner

In February 2016, the Company entered into an agreement to settle an outstanding note payable of approximately $1.1 million for $0.3 million with the former owner of a business ("DSI Business Owner") acquired by the Company in 2012, which was paid during the first quarter of 2016. The Company recognized a gain related to the settlement of $0.9 million, which is included in the Other line item in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2016.

Note 4 - Fair Value Measurements

Fair value of financial instruments

The carrying amounts of financial instruments, including cash and cash equivalents, restricted cash, 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:

	As of September 30, 2017		As of December 31, 2016	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Instruments:				
Cost method investment [(1)]	$ 552	$ 552	$1,016	$1,016
Highview technology license payable	$ 210	$ 210	$207	$207

(1) Fair value is based on the investee's equity raise at £1.00 per share that commenced during the three months ended September 30, 2017 and the equity raise at £2.00 per share as of December 31, 2016. Refer to Note 9 for further discussion of this investment. The fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market.

Concentration of credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and restricted cash, which were held at one and two financial institutions as of September 30, 2017 and December 31, 2016, respectively. If those institutions were to be unable to perform their obligations, the Company would be at risk regarding the amount of cash and investments in excess of the Federal Deposit Insurance Corporation limits (currently $250 thousand) that would be returned to the Company.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2017 and December 31, 2016, the Company had no financial instruments carried and measured at fair value on a recurring basis.

Note 5 - Commitments and Contingencies

Legal Proceedings

The Company is from time to time subject to, and is presently involved in, various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of its business. Such matters are subject to many uncertainties and to outcomes, the financial impacts of which are not predictable with assurance and that may not be known for extended periods of time. The Company records a liability in its consolidated financial statements for costs related to claims, settlements, and judgments where management has assessed that a loss is probable and an amount can be reasonably estimated. The Company’s significant legal proceedings are discussed below.

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.)

As of December 31, 2016, the Company had a recorded liability and insurance receivable of $4.0 million in connection with this lawsuit as the losses in connection with this matter were probable and reasonably estimable under U.S. GAAP. The liability was originally recorded as of June 30, 2016 in the Legal settlements and accruals line item of the Consolidated Balance Sheet. On February 10, 2017, the Company received an order and final judgment that the lawsuit was settled, and the entire case had been dismissed with prejudice. The Company's insurance carriers funded the full settlement in November 2016. As of March 31, 2017, the Company no longer had any amounts impacting its consolidated financial statements as the order and judgment related to the lawsuit was received during the first quarter of 2017.

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

As of December 31, 2016, the Company had a recorded liability and insurance receivable of $0.6 million in connection with this lawsuit as the losses in connection with this matter were probable and reasonably estimable under U.S. GAAP. The liability was originally recorded as of June 30, 2016 in the Legal settlements and accruals line item of the Consolidated Balance Sheet. A settlement for this lawsuit was approved and the case was closed on January 4, 2017, and the Company's insurance carriers funded the full settlement in January 2017. As of March 31, 2017, the Company no longer had any amounts impacting its consolidated financial statements as the order and judgment related to the lawsuit was received during the first quarter of 2017.

SEC Inquiry

On March 29, 2017, the Company and the Securities and Exchange Commission reached a settlement to resolve a previously disclosed investigation into certain accounting issues, as described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Without admitting or denying the SEC’s allegations, the Company agreed to the terms of the settlement and agreed to pay a civil monetary penalty of $0.5 million. The Company had fully reserved for this penalty as of June 30, 2016. The penalty was paid in the first quarter of 2017.

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") that built an activated carbon manufacturing plant (the “Red River Plant”). 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 Red River Plant through the second quarter of 2018 (the "Royalty Award").

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

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. Under a provision of the Royalty Award, 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 LC amounts as collateral for payments due to Norit, equal to 50% of the aggregate fair market value of such dividends (the "Dividends Provision"). Additionally, the first time that the Company achieves earnings in excess of $20.0 million for a fiscal year ended prior to January 1, 2018, the Company would be required increase its LC amounts as collateral by $5.0 million for payments due to Norit (the "Earnings Provision"). Any increase due to the Dividends Provision or the Earnings Provision should not cause the outstanding LC's to exceed the remaining estimated Royalty Award. Based on the Company's achievement of $97.7 million of net income for the fiscal year ended December 31, 2016, in March 2017 and pursuant to the Earnings Provision, the Company provided an additional LC of $5.0 million that is secured under the Line of Credit as of September 30, 2017. Although the Company executed a stock repurchase and declared dividends during the nine months ended September 30, 2017, the Company was not required to increase its outstanding LC amounts as the existing LC’s are of a sufficient amount to support future estimated payments due related to the Royalty Award.

During the nine months ended September 30, 2017, the Company revised its estimate for future Royalty Award payments based in part on an updated forecast provided to the Company from Carbon Solutions. This forecast included a material reduction in estimated future revenues generated at the Red River Plant. Based primarily on the updated forecast, the Company recorded a $3.4 million reduction to the Royalty Award accrual.

As of September 30, 2017 and December 31, 2016, the Company carried the components of the Royalty Award in Legal settlements and accruals in the Condensed Consolidated Balance Sheets of $4.5 million and $5.7 million, respectively, and in Legal settlements and accruals, long-term of zero and $5.4 million, respectively. 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.

The following table summarizes the Company's legal settlements and accruals as described above, which are presented in the Condensed Consolidated Balance Sheets:

(in thousands)	As of September 30, 2017	December 31, 2016
Settlement and Royalty Indemnification	$4,482	$ 5,656
Legal settlements	—	5,050
Legal settlements and accruals	4,482	10,706
Settlement and Royalty Indemnification, long-term	—	5,382
Legal settlements and accruals, long-term	—	5,382
Total legal settlements and accruals	$4,482	$ 16,088

Advanced Emission Solutions, Inc. Profit Sharing Retirement Plan

The Advanced Emissions Solutions, Inc. Profit Sharing Retirement Plan (the “Plan”) is subject to the jurisdiction of the Internal Revenue Service ("IRS") and the Department of Labor ("DOL"). The DOL opened an investigation into the Plan, and the Company is responding to all requests for documents and information from the DOL. The DOL has not issued any formal findings as of the date of this report. Although the Company believes there has been no breach of fiduciary duty with respect to the Plan, the Company believes that it is probable that the DOL will require some payment to the Plan in order to close the investigation. The Company determined that this amount is reasonably estimable and, as such, the Company has accrued $0.5 million as of September 30, 2017. The liability was recorded in the Other current liabilities line item on the Condensed Consolidated Balance Sheets. The expense recognized related to this accrual was included in the Other line item in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017. The estimate is based on information currently available and involves elements of judgment and significant uncertainties. As additional information becomes available and the resolution of the uncertainties becomes more apparent, it is possible that actual payment may exceed the accrued amount.

Other Commitments and Contingencies

Tinuum Group

The Company also has certain limited obligations contingent upon future events in connection with the activities of Tinuum Group. The Company, NexGen and two entities affiliated with NexGen have provided an affiliate of the Goldman Sachs Group, Inc. with limited guaranties (the "Tinuum Group 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 Tinuum Group Party Guaranty is entitled to receive contributions 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 Tinuum Group Party Guaranties.

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, and 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 performance thresholds are not achieved, the Company may have a “make right” obligation within the contract limits. During the three and nine months ended September 30, 2017, the Company was not presented with any performance guarantees nor did it incur any additional claims. Additional performance guarantee claims, if incurred, are included within the Equipment sales cost of revenue line in the Condensed Consolidated Statements of Operations.

Note 6 - Stockholders' Equity

Stock Repurchase

On May 5, 2017, the Company’s Board of Directors ("Board") authorized the commencement of a modified Dutch Auction tender offer ("Tender Offer") to purchase for cash up to 925,000 shares of the Company's common stock at a price per share of not less than $9.40 nor greater than $10.80, for a maximum aggregate purchase price of $10.0 million, with an option to purchase an additional 2% of the outstanding shares of common stock if the Tender Offer was oversubscribed. The Tender Offer expired on June 6, 2017 and a total of 2,858,425 shares were validly tendered and not properly withdrawn at or below the final purchase price of $9.40 per share.

Because the tender offer was oversubscribed, the Company purchased a prorated portion of the shares properly tendered by each tendering stockholder (other than "odd lot" holders whose shares were purchased on a priority basis) at the final per share purchase price. Accordingly, the Company acquired 1,370,891 shares of its common stock ("Tendered Shares") at a price of $9.40 per share, for a total cost of approximately $12.9 million, excluding fees and other expenses related to the tender offer. The Tendered Shares represented approximately 6.2% of the Company's outstanding shares prior to the tender offer. The Tendered Shares include the 925,000 shares the Company initially offered to purchase and 445,891 additional shares that the Company elected to purchase pursuant to its right to purchase up to an additional 2% of its outstanding shares of common stock. The Company recorded the Tendered Shares at cost, which included fees and expenses related to the Tender Offer, and reported the Tendered Shares as Treasury Stock on the Condensed Consolidated Balance Sheet as of September 30, 2017.

The Company’s Board and executive officers did not participate in the Tender Offer, except for one director of the Board, who is a manager of a financial institution and holds dispositive powers over the shares of the Company's common stock held by the financial institution that tendered 70,178 of its shares of the Company's common stock in order to continue to own less than 4.99% of the outstanding shares of the Company's common stock upon the expiration of the Tender Offer.

Quarterly Cash Dividend

The Company declared cash dividends (the "Dividends") of $0.25 per common share on each of June 14, 2017 and August 7, 2017, payable to stockholders of record as of the close of business on June 28, 2017 and August 21, 2017, respectively, which were paid on July 17, 2017 and September 7, 2017, respectively. The total amount of quarterly cash dividends paid by the Company during the three and nine months ended September 30, 2017 was $10.5 million. A portion of the Dividends remains accrued subsequent to the payment dates and represents dividends accumulated on nonvested shares of common stock held by employees of the Company that contain forfeitable dividend rights that are not payable until the underlying shares of common stock vest. These amounts are included in both Other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet as of September 30, 2017, Tax Asset Protection Plan

On May 5, 2017, the Board approved a Tax Asset Protection Plan designed to protect the Company's ability to utilize its net operating losses and tax credits, which totaled approximately $113 million as of December 31, 2016.

United States federal income tax rules, and Section 382 of the Internal Revenue Code in particular, could substantially limit the use of net operating losses and other tax assets if ADES experiences an "ownership change" (as defined in the Internal Revenue Code). In general, an ownership change occurs if there is a cumulative change in the ownership of ADES by "5 percent stockholders" that exceeds 50 percentage points over a rolling three-year period.

The Tax Asset Protection Plan is intended to act as a deterrent to any person acquiring beneficial ownership of 4.99% or more of the Company's outstanding common stock and will expire on the earlier of (a) May 4, 2018, or (b) the date of the 2018 Annual Meeting of Stockholders. The Tax Asset Protection Plan may also be terminated earlier in accordance with the terms thereof.

Note 7 - 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.

Total stock-based compensation expense for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Restricted stock award expense	$298	$633	$1,103	$1,615
Stock option expense	143	(21)	443	118
PSU expense	34	83	102	399
SAR expense	—	—	—	106
Total stock-based compensation expense	$475	$695	$1,648	$2,238

The amount of unrecognized compensation cost as of September 30, 2017, and the expected weighted-average period over which the cost will be recognized is as follows:

	As of September 30, 2017	
(in thousands)	Unrecognized Compensation Cost	Expected Weighted-Average Period of Recognition (in years)
Restricted stock award expense	$ 1,985	2.16
Stock option expense	288	0.22
PSU expense	35	0.26
Total unrecognized stock-based compensation expense	$ 2,308	1.89

Restricted Stock Awards

Restricted stock is typically granted with vesting terms of three 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, 2017 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2017	297,347	$ 8.03
Granted	185,616	$ 9.52
Vested	(190,524)	$ 7.99
Forfeited	(1,687)	$ 9.17
Non-vested at September 30, 2017	290,752	$ 9.00

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 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.

A summary of option activity for the nine months ended September 30, 2017 is presented below:

	Number of Options Outstanding and Exercisable	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (in years)
Options outstanding, January 1, 2017	632,446	$ 11.61		
Options granted	—	—		
Options exercised	—	—		
Options expired / forfeited	—	—		
Options outstanding, September 30, 2017	632,446	$ 11.61	$ 648	2.45
Options exercisable as of September 30, 2017	254,448	$ 13.48	$ 124	2.58

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. There were no PSU's granted during the nine months ended September 30, 2017.

A summary of PSU activity for the nine months ended September 30, 2017 is presented below:

	Units	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2017	49,516	$ 25.20
Granted	—	—
Vested / Settled (1)	(30,110)	$ (28.59)
Forfeited / Canceled	—	—
Non-vested at September 30, 2017	19,406	$ 19.95

(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 PSU's that were settled by issuing shares of the Company's common stock relative to a broad stock index and a peer group performance index.

	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, 2017							
	2014	6,476	3,573	0.75	1.00	—	—
	2015	3,869	2,310	0.60	0.60	—	—
Nine Months Ended September 30, 2016							
	2013	38,706	1,572	0.63	1.00	—	—
	2014	11,487	—	0.63	0.63	—	—
	2015	13,529	—	0.50	0.50	—	—

Note 8 - Income Taxes

For the three and nine months ended September 30, 2017, the Company recorded income tax expense of $3.6 million and $12.6 million, respectively, compared to income tax expense of $0.6 million and $0.7 million for the three and nine months ended September 30, 2016, respectively. The income tax expense recorded for the three and nine months ended September 30, 2017 was comprised of estimated federal income tax expense of $3.2 million and $11.9 million, respectively, and estimated state income tax expense of $0.4 million and $0.7 million, respectively. The income tax expense recorded for the three and nine months ended September 30, 2016 was comprised of estimated state income tax expense.

For the three and nine months ended September 30, 2017 and 2016, the Company's income tax expense and effective tax rates based on forecasted pretax income were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except for rate)	2017	2016	2017	2016
Income tax expense	$3,586	$583	$12,614	$734
Effective tax rate	38 %	6 %	38 %	3 %

The effective tax rate for the three and nine months ended September 30, 2017 was different from the federal statutory rate primarily due to state income tax expense, net of federal benefit.

The effective tax rate for the three and nine months ended September 30, 2016 was different from the statutory rate primarily due to the utilization of a portion of the federal operating losses and the Company's full valuation allowances against federal and state net operating losses and federal tax credits, offset by estimated state income tax expense.

The Company assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize the deferred tax asset, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating income taxes, the Company assesses the relative merits and risks of the appropriate income tax treatment of transactions taking into account statutory, judicial, and regulatory guidance.

Note 9 - Supplemental Financial Information

Supplemental Balance Sheet Information

The following table summarizes the components of Prepaid expenses and other assets and Other long-term assets as presented in the Condensed Consolidated Balance Sheets:

(in thousands)	As of September 30, 2017	December 31, 2016
Prepaid expenses and other assets:		
Prepaid expenses	$1,635	$ 1,169
Other	124	188
	$1,759	$ 1,357
Other long-term assets:		
Deposits	$223	$ 263
Intangibles	788	696
Cost method investment	552	1,016
Other	729	323
	$2,292	$ 2,298

Included within Other long-term assets is the Company's cost method investment. In November 2014, the Company acquired 411,765 shares of common stock, representing approximately an 8% ownership interest, in Highview Enterprises Limited ("Highview"), a London, England based developmental stage company specializing in power storage, for $2.8 million in cash (the "Highview Investment"). The Company evaluated the Highview Investment and determined that it should account for the investment under the cost method. The Highview 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 December 31, 2016, the Company recorded an impairment charge of $1.8 million based on an estimated fair value of £2.00 per share, compared to the carrying value prior to the impairment charge of £4.25 per share. The estimated fair value as of December 31, 2016 was based on an equity raise that was completed during the first quarter of 2017 at a price of £2.00 per share.

As of September 30, 2017, the Company recorded an impairment charge of $0.5 million, which is included in the Other line item in the Condensed Consolidated Statement of Operations, based on an estimated fair value of £1.00 per share, compared to the carrying value prior to the impairment charge of £2.00 per share. The estimated fair value as of September 30, 2017 was based on an equity raise that commenced during the third quarter of 2017 at a price of £1.00 per share.

The following table details the components of Other current liabilities and Other long-term liabilities as presented in the Condensed Consolidated Balance Sheets:

(in thousands)	As of September 30, 2017	December 31, 2016
Other current liabilities:		
Taxes payable	$1,064	$ 244
Estimated Company contribution to the Plan (1)	500	—
Accrued losses on revenue contracts	124	183
Accrued interest	63	618
Dividends payable	31	—
Warranty liabilities	374	287
Deferred rent	—	369
Asset retirement obligation	—	1,312
Other	1,162	1,004
	$3,318	$ 4,017
Other long-term liabilities:		
Deferred rent	185	38
Deferred revenue, related party	2,000	2,000
Dividends payable	62	—
	$2,247	$ 2,038

(1) See Note 5 for further discussion on the Plan.

The tables below detail additional components of Other current liabilities as presented above:

The changes in the carrying amount of the Company's warranty obligations from December 31, 2016 through September 30, 2017 are as follows:

(in thousands)	As of September 30, 2017
Balance, beginning of period	$ 287
Warranties accrued, net	580
Consumption of warranty obligations accrued	(524)
Change in estimate related to previous warranties accrued	31
Balance, end of period	$ 374

Included within Other current liabilities as of December 31, 2016 is the Company's asset retirement obligation. Changes in the Company's asset retirement obligations are as follows:

(in thousands)	As of September 30, 2017
Asset retirement obligation, beginning of period	$ 1,312
Accretion	37
Liabilities settled	(527)
Changes due to amount and timing of reclamation	(822)
Asset retirement obligations, end of period	$ —

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The Company's estimate for its asset retirement obligation was reduced during the nine months ended September 30, 2017 as the scope of the asset retirement obligation was reduced. The change in estimate was recorded within the Research and development, net line item of the Condensed Consolidated Statements of Operations as the asset retirement obligation related to a research project of which expenses were originally recorded within the same line item.

Supplemental Condensed Consolidated Statements of Operations Information

The following table details the components of Interest expense in the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
453A interest	$614	$889	$1,646	$2,034
Interest on RCM6 note payable, related party	—	—	—	263
Credit agreement interest	64	—	137	2,112
Other	—	80	216	87
	$678	$969	$1,999	$4,496

The following table details the components of the Other line item of the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Impairment of cost method investment	$(464)	$—	$(464)	$—
Gain on sale of equity method investment	—	—	—	2,078
Gain on settlement of note payable and licensed technology	—	—	—	869
Gain on termination of sales-type lease	—	900	—	900
Other (expense) income	(460)	378	(444)	113
	$(924)	$1,278	$(908)	$3,960

Note 10 - 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, 2017, the Company's CODM was the Company's CEO. The Company's operating and reportable segments are organized by products and services provided.

As of September 30, 2017, the Company has two reportable segments: (1) Refined Coal ("RC"); and (2) Emissions Control ("EC").

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 in the 2016 Form 10-K, except as described below.
- RC segment revenue includes the Company's equity method earnings and losses from the Company's equity method investments. RC segment revenue also includes the Company's royalty earnings from Tinuum Group.
- Segment operating income (loss) includes the Company's equity method earnings and losses from the Company's equity method investments, royalty earnings from Tinuum Group, gains related to sales of equity method investments and allocation of certain "Corporate general and administrative expenses," which include Payroll and benefits, Rent and occupancy, Legal and professional fees, and General and administrative.

- All items not included in operating income are excluded from the RC and EC segments.

As of September 30, 2017 and December 31, 2016, substantially all of the Company's 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, 2017 and 2016:

(in thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Revenues:				
Refined Coal:				
Earnings in equity method investments	$12,120	$10,735	$36,089	$30,066
Royalties	2,804	2,064	6,425	3,922
	14,924	12,799	42,514	33,988
Emissions Control:				
Equipment sales	1,577	14,869	31,304	44,788
Chemicals	717	670	3,844	1,717
Consulting services	—	171	—	492
	2,294	15,710	35,148	46,997
Total segment reporting revenues	17,218	28,509	77,662	80,985
Adjustments to reconcile to reported revenues:				
Refined Coal:				
Earnings in equity method investments	(12,120)	(10,735)	(36,089)	(30,066)
Royalties	(2,804)	(2,064)	(6,425)	(3,922)
	(14,924)	(12,799)	(42,514)	(33,988)
Total reported revenues	$2,294	$15,710	$35,148	$46,997
Segment operating income (loss):				
Refined Coal (1)	$13,991	$11,913	$40,149	$33,974
Emissions Control	(895)	2,956	1,265	9,656
Total segment operating income	$13,096	$14,869	$41,414	$43,630

(1) Included within the RC segment operating income for the three months ended September 30, 2017 and 2016 is 453A interest expense of $0.6 million and $0.9 million, respectively. Included within the RC segment operating income for the nine months ended September 30, 2017 and 2016 are 453A interest expense of $1.6 million and $2.0 million, respectively, and interest expense related to the RCM6 note payable of zero and $0.3 million, respectively. Additionally, included within the RC segment operating income for the nine months ended September 30, 2016 is a $2.1 million gain on the sale of RCM6.

A reconciliation of reportable segment operating income to the Company's consolidated net income is as follows:

(in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Segment operating income	$13,096	$14,869	$41,414	$43,630
Adjustments to reconcile to net income attributable to ADES				
Corporate payroll and benefits	(1,222)	(2,034)	(4,375)	(7,946)
Corporate rent and occupancy	(91)	(306)	(208)	(807)
Corporate legal and professional fees	(964)	(1,606)	(3,091)	(6,515)
Corporate general and administrative	(857)	(818)	(2,513)	(2,965)
Corporate depreciation and amortization	(38)	(93)	(296)	(351)
Corporate interest (expense) income, net	(46)	(78)	(329)	(2,200)
Other (expense) income, net	(500)	261	2,900	(264)
Income tax expense	(3,586)	(583)	(12,614)	(734)
Net income	$5,792	$9,612	$20,888	$21,848

Corporate general and administrative expenses listed above include certain costs that benefit the business as a whole but are not directly related to one of the Company's 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, 2017	December 31, 2016
Refined Coal	$6,352	$ 6,310
Emissions Control	3,936	24,551
All Other and Corporate	78,843	76,435
Consolidated	$89,131	$ 107,296

Note 11 - Restructuring

The Company recorded restructuring charges during the three and nine months ended September 30, 2016 in connection with a reduction in force, the departure of certain executive officers and management's further alignment of the business with strategic objectives. These charges related to severance arrangements with departing employees and executives, as well as non-cash charges related to the acceleration of vesting of certain stock awards. There were no material restructuring charges during the three and nine months ended September 30, 2017.

A summary of the net pretax charges, incurred by segment, excluding facility charges shown below, is as follows:

(in thousands, except employee data)	Approximate Number of Employees	Pretax Charge			
		Refined Coal	Emissions Control	All Other and Corporate	Total
Three Months Ended September 30, 2016					
Restructuring charges	17	$—	$ 700	$ 290	$990
Changes in estimates		—	—	(276)	(276)
Total pretax charge, net of reversals		$—	$ 700	$ 14	$714
Nine Months Ended September 30, 2016					
Restructuring charges	39	$—	$ 1,169	$ 889	$2,058
Changes in estimates		—	—	(276)	(276)
Total pretax charge, net of reversals		$—	$ 1,169	$ 613	$1,782

The following table summarizes the Company's change in restructuring accruals for the nine months ended September 30, 2017:

(in thousands)	Employee Severance	Facility Closures
Remaining accrual as of December 31, 2016	$ 452	$ 247
Expense provision	81	—
Cash payments and other	(498)	(250)
Change in estimates	(25)	3
Remaining accrual as of September 30, 2017	$ 10	$ —

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 12 - Subsequent Events

Unless disclosed elsewhere within the notes to the Condensed Consolidated Financial Statements, the following are the significant matters that occurred subsequent to September 30, 2017.

Dividends

On November 6, 2017, the Company's Board of Directors declared a quarterly dividend of $0.25 per share of common stock, which is payable on December 6, 2017 to stockholders of record at the close of business on November 17, 2017.

Other

On November 6, 2017, the Company entered into a settlement agreement with a former third-party service provider to the Company in the amount of $3.5 million. The settlement amount is expected to be paid to the Company during the fourth quarter of 2017.

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 the Company's 2016 Form 10-K.

Overview

ADES serves as the holding entity for a family of companies that provide emissions solutions to customers in the coal-fired power generation and industrial boiler industries. Through our subsidiaries and equity investments, we are a leader in emissions control ("EC") 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 EC regulations.

Our major activities include:

- Development and sale of equipment, 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;
- Through Tinuum Group LLC ("Tinuum Group"), an unconsolidated entity, the reduction of mercury and nitrogen oxide ("NO_X") emissions at select coal-fired power generators through the burning of refined coal ("RC") produced by RC facilities placed in service by Tinuum Group. We benefit from Tinuum Group's production and sale of RC, which lowers emissions and generates tax credits, as well as the revenue from selling or leasing RC facilities to tax equity investors. See the separately filed financial statements of Tinuum Group within the 2016 Form 10-K; and
- Development and sale of technology, through a licensing arrangement with Tinuum Group, to reduce emissions and improve operations of coal-fired boilers used for power generation and industrial processes.

Results of Operations

For the three and nine months ended September 30, 2017, we recognized net income of $5.8 million and $20.9 million, respectively, compared to net income of $9.6 million and $21.8 million, respectively, for the three and nine months ended September 30, 2016.

Generally, this performance during the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016 is attributable to a combination of factors, including:

- Continued performance in our RC business segment, principally related to distributions, equity earnings and royalties from our Tinuum Group and Tinuum Services, LLC ("Tinuum Services") equity investments;
- Growth in revenue from our chemical offerings;
- Reduction in revenues and margin contribution for equipment systems in 2017 compared to 2016 due to the completion of the most significant portion of equipment systems occurring during prior periods;
- Reductions in various categories of expenses, driven by restructuring activities in April and July 2016, a reduction in resources to complete the re-audit and restatement of prior financial statements (the "Restatement"), with such activities related to the Restatement being substantially completed by April 2016, the elimination of debt from the balance sheet, and our move to a smaller corporate headquarters location; and
- During the three and nine months ended September 30, 2017, we recognized an increase in income tax expense due to the partial release of the deferred tax asset valuation allowance as of December 31, 2016.

The following sections provide additional information regarding these comparative periods. For comparability purposes, the following tables set forth our results of operations for the periods presented in the 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.

Comparison of the Three Months Ended September 30, 2017 and 2016

Total Revenue and Cost of Revenue

A summary of the components of our revenues and cost of revenue for the three months ended September 30, 2017 and 2016 is as follows:

(in thousands, except percentages)	Three Months Ended September 30, 2017	2016	Change ($)	(%)
Revenues:				
Equipment sales	$1,577	$14,869	$(13,292)	(89)%
Chemicals	717	670	47	7 %
Consulting services and other	—	171	(171)	(100)%
Total revenues	$2,294	$15,710	$(13,416)	(85)%
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	$1,467	$12,704	$(11,237)	(88)%
Chemicals cost of revenue, exclusive of depreciation and amortization	$574	$469	$105	22 %
Consulting services and other cost of revenue, exclusive of depreciation and amortization	$—	$86	$(86)	(100)%

Equipment sales and Equipment sales cost of revenue, exclusive of items shown separately below

During the three months ended September 30, 2017 and 2016, we did not enter into any long-term (six months or longer) fixed price contracts to supply Activated Carbon Injection ("ACI") systems. During the three months ended September 30, 2016, we completed two ACI systems, recognizing revenues $6.6 million and cost of revenue of $5.7 million. During the three months ended September 30, 2016, change orders on ACI systems positively impacted contract revenue by $0.9 million. We did not recognize any loss provisions, included within costs of revenue, for contracts related to ACI systems during the three months ended September 30, 2016. All contracted ACI systems outstanding at December 31, 2016 were completed prior to the three months ended September 30, 2017.

During the three months ended September 30, 2017 and 2016, we did not enter into any long-term (six months or longer) fixed price contracts to supply Dry Sorbent Injection ("DSI") systems. During the three months ended September 30, 2016, change orders on DSI systems positively impacted contract revenue by $0.8 million. The aggregate contract values on existing contracts may change due to the relative sizes of DSI systems and the contracts related thereto. During the three months ended September 30, 2017, we completed one DSI system, recognizing revenue of $1.6 million and cost of revenue of $1.5 million. During the three months ended September 30, 2016, we completed four DSI systems, recognizing revenue of $8.0 million and cost of revenue of $6.9 million. Certain of the DSI system long-term fixed price contracts were expected to be completed with losses. During the three months ended September 30, 2016, we recorded $0.1 million in loss provisions included in cost of revenue related to DSI system contracts.

Demand for ACI and DSI system contracts historically was driven by coal-fired power plant utilities that need to comply with Federal Mercury and Air Toxics Standards ("MATS") and Maximum Achievable Control Technology Standards ("MACT"). As the deadline for these standards has passed, we do not expect to enter into any future long-term fixed price contracts for ACI and DSI systems.

Chemicals and Chemicals cost of revenue

During the three months ended September 30, 2017 and 2016, revenues increased quarter over quarter primarily due to an overall increase in pounds of our chemicals sold. Gross margins on sales of chemicals for the three months ended September 30, 2017 were lower than the comparable period in 2016 due to price compression and ongoing field testing with multiple customers that did not occur in the comparable period in 2016. Future period revenues are expected to be negatively impacted as a major customer discussed in previous filings is not expected to purchase chemicals going forward as well as the effects of continued price compression compared to historical periods. As we continue to expand our customer base and attempt to increase the volume, size and duration of chemical sale arrangements, we are faced with the challenge of a competitive market with a long lead-to-sale cycle. Increasing future sales of chemicals is our primary focus of the EC business at this time.

Consulting services and Consulting services cost of revenue

We also may provide consulting services related to emissions regulations but reported no revenue for the three months ended September 30, 2017. Due to diminishing market demand related to historical services provided, we do not believe this revenue component will be material in the near term.

Additional information related to revenue concentrations and contributions by class and reportable segment can be found within the segment discussion below and in Note 10 to the Condensed Consolidated Financial Statements.

Other Operating Expenses

A summary of the components of our operating expenses, exclusive of cost of revenue items (presented above), for the three months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Change	
(in thousands, except percentages)	2017	2016	($)	(%)
Operating expenses:				
Payroll and benefits	$1,679	$2,809	$(1,130)	(40)%
Rent and occupancy	255	508	(253)	(50)%
Legal and professional fees	1,062	1,615	(553)	(34)%
General and administrative	862	818	44	5 %
Research and development, net	252	(524)	776	(148)%
Depreciation and amortization	87	138	(51)	(37)%
	$4,197	$5,364	$(1,167)	(22)%

Payroll and benefits

Payroll and benefits expenses decreased during the three months ended September 30, 2017 compared to the same quarter in 2016 primarily due to a reduction in restructuring expenses in connection with the departure of certain executive officers and employees impacted by management's alignment of the business with strategic objectives during 2016. During the three months ended September 30, 2017 and September 30, 2016, we recorded net restructuring charges of zero and $0.7 million, respectively. Stock-based compensation also decreased by $0.2 million during the three months ended September 30, 2017 compared to the same quarter in 2016. Additionally, the remaining decrease is attributable to a decrease in average headcount of approximately 27% between the applicable periods.

Rent and occupancy

Rent and occupancy expense decreased during the three months ended September 30, 2017 compared to the same quarter in 2016 primarily due to lower rent and occupancy expense from relocating our corporate office in the first quarter of 2017.

Legal and professional fees

Legal and professional fees expenses decreased during the three months ended September 30, 2017 compared to the same quarter in 2016 as a result of a decrease in costs related to outsourced shared service costs, including accounting consultants, legal fees and audit fees.

General and administrative

General and administrative expenses remained relatively flat during the three months ended September 30, 2017 compared to the same quarter in 2016 due to decreases in general operating expenses, including a decrease in outsourced IT costs. These decreases were offset by $0.1 million incurred during the three months ended September 30, 2017 for expenses associated with a new enterprise resource planning ("ERP") system.

Research and development, net

Research and development expenses, net increased during the three months ended September 30, 2017 compared to the same quarter in 2016 primarily due to an increase in research and development activities related to continued product development for our ongoing business. In addition, research and development expenses, net during the three months ended September 30, 2016 were positively impacted by a final billing to the Department of Energy ("DOE") for one R&D contract.

Depreciation and amortization

Depreciation and amortization expense decreased during the three months ended September 30, 2017 compared to the same quarter in 2016 due to a reduction in certain assets, including leasehold improvements and office furniture, which were subject to acceleration of depreciation and disposed of in connection with our office relocation in the first quarter of 2017.

Other Income (Expense), net

A summary of the components of our other income (expense), net for the three months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Change	
(in thousands, except percentages)	2017	2016	($)	(%)
Other income (expense):				
Earnings from equity method investments	$12,120	$10,735	$1,385	13 %
Royalties, related party	2,804	2,064	740	36 %
Interest expense	(678)	(969)	291	(30)%
Other	(924)	1,278	(2,202)	(172)%
Total other income	$13,322	$13,108	$214	2 %

Earnings from equity method investments

The following table details the components of our respective equity method investments included within the Earnings from equity method investments line item on the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,	
(in thousands)	2017	2016
Earnings from Tinuum Group	$11,050	$9,775
Earnings from Tinuum Services	1,061	960
Earnings from other	9	—
Earnings from equity method investments	$12,120	$10,735

Earnings from equity method investments, and changes related thereto, are impacted by our most significant equity method investees: Tinuum Group and Tinuum Services. Earnings from equity method investments increased during the three months ended September 30, 2017 compared to the same quarter in 2016 primarily due to an increase in cash distributions from Tinuum Group in excess of our investment balance.

During the three months ended September 30, 2017, we recognized $11.1 million in equity earnings from Tinuum Group compared to our proportionate share of Tinuum Group's net income of $11.4 million for the quarter. During the three months ended September 30, 2016, we recognized $9.8 million in equity earnings from Tinuum Group compared to our proportionate share of Tinuum Group's net income of $9.3 million for the quarter. The difference between our pro-rata share of Tinuum Group's net income and our earnings from our Tinuum Group equity method investment as reported on the Condensed Consolidated Statements of Operations is the result of cumulative distributions received from Tinuum Group being in excess of the carrying value of the investment, and therefore we recognize such excess distributions as equity method earnings in the period the distributions occur, as discussed in more detail below.

The carrying value of our investment in Tinuum Group was zero as of September 30, 2017, as cumulative cash distributions received from Tinuum Group exceeded our pro-rata share of cumulative earnings in Tinuum Group. The carrying value of our investment in Tinuum Group will remain zero as long as the cumulative amount of distributions received from Tinuum Group continues to exceed our cumulative pro-rata share of Tinuum Group's net income. For quarterly periods during which the ending balance of our investment in Tinuum Group is zero, we only recognize equity earnings from Tinuum Group to the extent that cash distributions are received from Tinuum Group during the period. For quarterly periods during which the ending balance of our investment is greater than zero (e.g., when the cumulative earnings in Tinuum Group exceeds cumulative cash distributions received), we recognize our pro-rata share of Tinuum Group's net income for the period, less any amount necessary to recover the cumulative earnings short-fall balance as of the end of the immediately preceding quarter. See additional information related to our investment balance, equity earnings (losses) and cash distributions in Note 2 of the Condensed Consolidated Financial Statements.

As of September 30, 2017 and 2016, Tinuum Group had 15 and 13 invested RC facilities, respectively, that were generating rental income. There were no 100% retained RC facilities as of September 30, 2017 or December 31, 2016, except for temporary operations of a retained RC facility prior to its lease/sale or as discussed below related to GWN Manager, LLC ("GWN Manager").

Equity earnings from our interest in Tinuum Services increased by $0.1 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and for those quarters, Tinuum Services provided operating and maintenance services to 14 and 13 operating RC facilities, respectively. Tinuum Services derives earnings both from fixed-fee arrangements as well as fees that are based on actual RC production, depending upon the specific RC facility operating and maintenance agreement.

On July 27, 2017, we purchased a 50% membership interest in GWN Manager from Tinuum Group for an upfront payment of $0.1 million. GWN Manager owns a 0.2% membership interest in a subsidiary of Tinuum Group, which owns a single RC facility that produces RC that qualifies for Internal Revenue Code Section 45 tax credits ("Section 45 tax credits"). Tinuum Group sold 49.9% of the subsidiary that owns the RC facility to an unrelated third party and retained ownership of the remaining 49.9%. We are subject to monthly capital calls to GWN Manager based on estimated working capital needs.

Our investment in GWN Manager as of September 30, 2017, was $0.1 million. Equity earnings from our interest in GWN Manager included our share of net income from inception to September 30, 2017.

We earned the following Section 45 tax credits related to the production of RC that may be available for future benefit:

	Three Months Ended September 30,	
(in thousands)	2017	2016
Section 45 tax credits earned	$1,044	$ 93

The increase in Section 45 tax credits earned during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily due to the Company's investment in GWN Manager and Tinuum Group's ongoing retained RC facility operations that commenced during the three months ended September 30, 2017. During the three months ended September 30, 2016, we only generated Section 45 tax credits from the temporary operations of a retained RC facility prior to its lease/sale to a tax investor. Additional information related to our equity method investees is included in Note 2 of the Condensed Consolidated Financial Statements.

Royalties, related party

During the three months ended September 30, 2017 and 2016, there were 6.9 million tons and 5.9 million tons, respectively, of RC produced using M-45™ and M-45-PC™ technologies ("M-45 Technology"), which Tinuum Group licenses from us ("M-45 License"). The increase in royalty income was primarily due to obtaining additional third-party investors for two new RC facilities during the first and third quarters of 2017, both of which use our M-45 License. Therefore, this resulted in an increase in rent payments to Tinuum Group and the related tons subject to the M-45 License.

Interest expense

During the three months ended September 30, 2017, interest expense decreased $0.3 million compared to the three months ended September 30, 2016 primarily due to a reduction in the deferred balance related to the Internal Revenue Code section 453A ("453A"), which requires taxpayers using the installment method for income tax purposes to pay an interest charge on the portion of the tax liability that is deferred under the installment method.

Other

The Advanced Emissions Solutions, Inc. Profit Sharing Retirement Plan (the “Plan”) is subject to the jurisdiction of the Internal Revenue Service ("IRS") and the Department of Labor ("DOL"). The DOL opened an investigation into the Plan, and we are responding to all requests for documents and information from the DOL. The DOL has not issued any findings as of the date of this report. Although, we believe there has been no breach of fiduciary duty, we believe a liability for contributions to the Plan is probable and reasonably estimable and, as such, we have accrued $0.5 million as September 30, 2017. The estimate of this amount is based on information currently available and involves elements of judgment and significant uncertainties. As additional information becomes available and the resolution of the uncertainties becomes more apparent, it is possible that actual payment to the Plan may exceed the accrued amount.

Income tax expense

For the three months ended September 30, 2017, we recorded income tax expense of $3.6 million compared to income tax expense of $0.6 million for three months ended September 30, 2016. The income tax expense recorded for the three months ended September 30, 2017 was comprised of estimated federal income tax expense of $3.2 million and estimated state income tax expense of $0.4 million.

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For the three months ended September 30, 2016, we did not record any federal income tax expense primarily due to the utilization of federal net operating losses and the Company's full valuation allowance against federal net operating losses and federal tax credits. Income tax expense for three months ended September 30, 2016 included only state income tax expense.

We concluded that, as of December 31, 2016, it is more likely than not we will generate sufficient taxable income within the applicable NOL and tax credit carry-forward periods to realize a significant portion of our net deferred tax assets and, therefore, reversed a portion of the valuation allowance as of December 31, 2016. As a result, for periods in which we report income before tax, we will recognize federal and state income tax expense.

Comparison of the Nine Months Ended September 30, 2017 and 2016

Total Revenue and Cost of Revenue

A summary of the components of our revenues and cost of revenue for the nine months ended September 30, 2017 and 2016 is as follows:

	Nine Months Ended September 30,		Change	
(in thousands, except percentages)	2017	2016	($)	(%)
Revenues:				
Equipment sales	$31,304	$44,788	$(13,484)	(30)%
Chemicals	3,844	1,717	2,127	124 %
Consulting services and other	—	492	(492)	(100)%
Total revenues	$35,148	$46,997	$(11,849)	(25)%
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	$28,260	$35,175	$(6,915)	(20)%
Chemicals cost of revenue, exclusive of depreciation and amortization	$2,977	$865	$2,112	244 %
Consulting services and other cost of revenue, exclusive of depreciation and amortization	$—	$299	$(299)	(100)%

Equipment sales and Equipment sales cost of revenue, exclusive of items shown separately below

During the nine months ended September 30, 2017 and 2016, we entered into zero and five long-term (six months or longer) fixed price contracts to supply ACI systems with aggregate contract values, net of change orders during the period, of zero and $2.9 million, respectively. During the nine months ended September 30, 2017, change orders on ACI systems negatively impacted contract revenue by $0.1 million. During the nine months ended September 30, 2017 and 2016, we completed four and 15 ACI systems, recognizing revenues of $3.4 million and $26.1 million and cost of revenue of $2.3 million and $19.8 million, respectively. The ACI systems completed during the nine months ended September 30, 2017 represented all contracted ACI systems that were outstanding as of December 31, 2016.

During the nine months ended September 30, 2017 and 2016, we did not enter into any long-term (six months or longer) fixed price contracts to supply DSI systems. During the nine months ended September 30, 2016, change orders on DSI systems negatively impacted contract revenue by $1.4 million. The aggregate contract values on existing contracts may change due to the relative sizes of DSI systems and the contracts related thereto. During the nine months ended September 30, 2017 and 2016, we completed five and ten DSI systems, recognizing revenues of $27.8 million and $14.8 million, respectively, and cost of revenue of $25.9 million and $13.9 million, respectively. Certain of the DSI system long-term fixed price contracts were expected to be completed with losses. During the nine months ended September 30, 2017 and 2016, we recorded zero in loss provisions and a reduction of $0.2 million to previously recorded loss provisions, respectively, which are included in cost of revenue related to DSI system contracts.

Demand for ACI and DSI system contracts has historically been driven by coal fired power plant utilities that need to comply with Federal MATS and MACT. As the deadline for these standards has passed, we do not expect to enter into any future long-term fixed price contracts for ACI and DSI systems.

Chemicals and Chemicals cost of revenue

During the nine months ended September 30, 2017 and 2016, revenues increased period over period primarily due to an overall increase in pounds of our chemicals sold. Gross margins on sales of chemicals for the nine months ended September 30, 2017 were lower than the comparable period in 2016 due to price compression and ongoing field testing with multiple customers that did not occur in the comparable period in 2016. Future period revenues are expected to be negatively impacted as a major customer discussed in previous filings is not expected to purchase chemicals going forward as well as the effects of continued price compression compared to historical periods. As we continue to expand our customer base and attempt to increase the volume, size and duration of chemical sale arrangements, we are faced with the challenge of a competitive market with a long lead-to-sale cycle. Increasing future sales of chemicals is our primary focus of the EC business at this time.

Consulting services and Consulting services cost of revenue

We reported no revenue related to consulting services for the nine months ended September 30, 2017. Due to diminishing market demand related to historical services provided, we do not believe this revenue component will be material in the near term.

Additional information related to revenue concentrations and contributions by class and reportable segment can be found within the segment discussion below and in Note 10 to the Condensed Consolidated Financial Statements.

Other Operating Expenses

A summary of the components of our operating expenses, exclusive of cost of revenue items (presented above), for the nine months ended September 30, 2017 and 2016 is as follows:

	Nine Months Ended September 30,		Change	
(in thousands, except percentages)	2017	2016	($)	(%)
Operating expenses:				
Payroll and benefits	$5,894	$10,567	$(4,673)	(44)%
Rent and occupancy	555	1,534	(979)	(64)%
Legal and professional fees	3,316	6,581	(3,265)	(50)%
General and administrative	2,934	2,920	14	— %
Research and development, net	30	(667)	697	(104)%
Depreciation and amortization	687	593	94	16 %
	$13,416	$21,528	$(8,112)	(38)%

Payroll and benefits

Payroll and benefits expenses decreased during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to a decrease in average headcount of approximately 45% to approximately 25 employees as of September 30, 2017. Additionally, restructuring expenses decreased during the nine months ended September 30, 2017 compared to the same period in 2016 in connection with the departure of certain executive officers and employees impacted by management's alignment of the business with strategic objectives during 2016. During the nine months ended September 30, 2017 and September 30, 2016, we recorded net restructuring charges of zero and $1.8 million, respectively. In addition, bonuses and stock-based compensation decreased by $1.2 million for the nine months ended September 30, 2017 compared to the same period in 2016.

Rent and occupancy

Rent and occupancy expense decreased during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to the acceleration of deferred rent and tenant improvement allowances in connection with the termination of the lease agreement of our former corporate office. Effective during the first quarter of 2017, we relocated our corporate office, which resulted in lower rent and occupancy expense during the nine months ended September 30, 2017.

Legal and professional fees

Legal and professional fees expenses decreased during the nine months ended September 30, 2017 compared to the same period in 2016 as a result of the conclusion of the Restatement of our consolidated financial statements, which was substantially completed in April of 2016 and required significant professional resources. Expenses related to the Restatement during the nine months ended September 30, 2016 were $1.9 million. Additional decreases for the nine months ended September 30, 2017 were driven by a decrease in costs related to outsourced shared services costs, including accounting consultants, legal fees and audit fees.

General and administrative

General and administrative expenses remained relatively flat during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to decreases in general operating expenses, including travel and professional expenses and impairment charges recognized on property and equipment and inventory of $0.5 million during the nine months ended September 30, 2016. Offsetting the decrease in General and administrative expenses period over period was an allowance recorded against a long-term receivable during the nine months ended September 30, 2017.

Research and development, net

Research and development expenses, net increased during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to an increase in research and development activities related to continued product development for our ongoing business. The net increase in 2017 was offset by a decrease in our asset retirement obligation estimate during the nine months ended September 30, 2017, which was driven by a reduction in the scope of the obligation, whereas the nine months ended September 30, 2016 was positively impacted by final billings to the DOE for one R&D contract.

Depreciation and amortization

Depreciation and amortization expense increased during the nine months ended September 30, 2017 compared to the same period in 2016 due to the acceleration of depreciation related to certain assets, including leasehold improvements and office furniture, which were disposed of in connection with our office relocation in the first quarter of 2017.

Other Income (Expense), net

A summary of the components of our other income (expense), net for the nine months ended September 30, 2017 and 2016 is as follows:

	Nine Months Ended September 30,		Change	
(in thousands, except percentages)	2017	2016	($)	(%)
Other income (expense):				
Earnings from equity method investments	$36,089	$30,066	$6,023	20 %
Royalties, related party	6,425	3,922	2,503	64 %
Interest expense	(1,999)	(4,496)	2,497	(56)%
Revision in estimated royalty indemnity liability	3,400	—	3,400	*
Other	(908)	3,960	(4,868)	(123)%
Total other income	$43,007	$33,452	$9,555	29 %

* Calculation not meaningful

Earnings from equity method investments

The following table details the components of our respective equity method investments included within the Earnings from equity method investments line item on the Condensed Consolidated Statements of Operations:

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Earnings from Tinuum Group	$33,363	$28,050
Earnings from Tinuum Services	2,717	2,573
Earnings (losses) from other	9	(557)
Earnings from equity method investments	$36,089	$30,066

Earnings from equity method investments, and changes related thereto, are impacted by our most significant equity method investees: Tinuum Group and Tinuum Services. Earnings from equity method investments increased during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to an increase in cash distributions from Tinuum Group in excess of our investment balance.

During the nine months ended September 30, 2017, we recognized $33.4 million in equity earnings from Tinuum Group compared to our proportionate share of Tinuum Group's net income of $33.6 million for the period. During the nine months ended September 30, 2016, we recognized $28.1 million in equity earnings from Tinuum Group compared to our proportionate share of Tinuum Group's net income of $24.8 million for the period. The difference between our pro-rata share of Tinuum Group's net income and our earnings from our Tinuum Group equity method investment as reported on the Condensed Consolidated Statements of Operations is the result of cumulative distributions received from Tinuum Group being in excess of the carrying value of the investment, and therefore we recognize such excess distributions as equity method earnings in the period the distributions occur, as discussed in more detail below.

Equity earnings from our interest in Tinuum Services increased during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Tinuum Services provided operating and maintenance services to 14 and 13 operating RC facilities, respectively. Tinuum Services derives earnings both from fixed-fee arrangements as well as fees that are based on actual RC production, depending upon the specific RC facility operating and maintenance agreement.

On March 3, 2016, we sold our 24.95% membership interest in RCM6 for a cash payment of $1.8 million and assumption of the outstanding note payable made by us in connection with our purchase of the RCM6 membership interest from Tinuum Group in February 2014. Through March 3, 2016, we recognized equity losses related to our investment in RCM6 of $0.6 million.

On July 27, 2017, we purchased a 50% membership interest in GWN Manager from Tinuum Group for an upfront payment of $0.1 million. GWN Manager owns a 0.2% membership interest in a subsidiary of Tinuum Group, which owns a single RC facility that produces RC that qualifies for Section 45 tax credits. Tinuum Group sold 49.9% of the subsidiary that owns the RC facility to an unrelated third party and retained ownership of the remaining 49.9%. We are subject to monthly capital calls to GWN Manager based on estimated working capital needs.

Our investment in GWN Manager as of September 30, 2017, was $0.1 million. Equity earnings from our interest in GWN Manager included our share of net income from inception to September 30, 2017.

We earned the following Section 45 tax credits related to the production of RC that may be available for future benefit:

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Section 45 tax credits earned	$1,141	$2,920

The decrease in Section 45 tax credits earned during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was due to suspending operations on retained facilities in 2016, as well as the sale of RCM6 in March 2016. This was offset by our investment in GWN Manager, which generates Section 45 tax credits and commenced operations during the three months ended September 30, 2017. Additional information related to our equity method investees is included in Note 2 of the Condensed Consolidated Financial Statements.

Royalties, related party

During the nine months ended September 30, 2017 and 2016, there were 14.5 million tons and 12.2 million tons, respectively, of RC produced using our M-45 Technology. The increase in royalty income was primarily due to obtaining additional third party investors for two new RC facilities during the first and third quarter of 2017, both of which use our M-45 License. Therefore, this resulted in an increase in rent payments to Tinuum Group and the related tons subject to the M-45 License.

Interest expense

During the nine months ended September 30, 2017, interest expense decreased $2.5 million compared to the nine months ended September 30, 2016 primarily due to interest expense incurred during 2016 related to the Credit Agreement that was terminated in June 2016. Additional decreases in interest expense related to section 453A, which requires taxpayers using the installment method for income tax purposes to pay an interest charge on the portion of the tax liability that is deferred under the installment method, and the elimination of the RCM6 note payable in March 2016. The decreases in interest expense related to 453A and RCM6 were $0.4 million and $0.3 million, respectively, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Revision in estimated royalty indemnity liability
During the nine months ended September 30, 2017, management revised its estimate for future Royalty Award payments based in part on an updated forecast provided to us by a former equity method investment. As discussed in Note 5 to the Condensed Consolidated Financial Statements, we are required to pay additional damages related to certain future revenues generated from the former equity method investment. This forecast included a material reduction in estimated future revenues generated at the specific activated carbon plant from which the royalties are generated. Based primarily on the updated forecast, management recorded a $3.4 million reduction to its Royalty Award accrual during the nine months ended September 30, 2017.

Other
Gain on sale of equity method investment
On March 3, 2016, we sold our 24.95% membership interest in RCM6 for a cash payment of $1.8 million and the assumption by the buyer of a note payable, which we entered into in connection with our purchase of RCM6 membership interests from Tinuum Group in February 2014. The outstanding balance on the note payable at the time of the sale was $13.2 million. With the sale of our membership interest in RCM6, we recognized a gain on the sale of $2.1 million for the nine months ended September 30, 2016, which is included within the Other line item in the Condensed Consolidated Statements of Operations.

Gain on settlement of note payable
During the first quarter of 2016, we entered into an agreement to settle the remaining amounts owed to the DSI Business Owner, resulting in a gain of approximately $0.9 million.

Advanced Emission Solutions, Inc. Profit Sharing Retirement Plan
As discussed above, as of September 30, 2017, the Company has accrued $0.5 million for contribution to the Plan related to the DOL investigation of the Plan.
Income tax expense
For the nine months ended September 30, 2017, we recorded income tax expense of $12.6 million compared to income tax expense of $0.7 million for nine months ended September 30, 2016. The income tax expense recorded for the nine months ended September 30, 2017 was comprised of estimated federal income tax expense of $11.9 million and estimated state income tax expense of $0.7 million.

For the nine months ended September 30, 2016, we did not record any federal income tax expense primarily due to the utilization of federal net operating losses and the Company's full valuation allowance against federal net operating losses and federal tax credits. Income tax expense for the nine months ended September 30, 2016 included only state income tax expense.

We concluded that, as of December 31, 2016, it is more likely than not we will generate sufficient taxable income within the applicable NOL and tax credit carry-forward periods to realize a significant portion of our net deferred tax assets and, therefore, reversed a portion of the valuation allowance. As a result, for periods in which we report income before tax, we will recognize federal and state income tax expense.

Business Segments

As of September 30, 2017, we have two reportable segments: (1) RC and (2) EC. The business segment measurements provided to and evaluated by our chief operating decision maker 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 our equity method earnings and losses from our equity method investments. Segment revenue also includes our royalty earnings from Tinuum Group and income related to sales-type leases.
- Segment operating income (loss) includes our equity method earnings and losses from our equity method investments, royalty earnings from Tinuum Group, gains related to sales of equity method investments and an allocation of certain "Corporate general and administrative expenses," which include Payroll and benefits, Rent and occupancy, Legal and professional fees, and General and administrative.
- All items not included in operating income are excluded from the RC and EC segments.

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. Our equity method investments related to the RC segment include Tinuum Group, Tinuum Services as well as other immaterial equity method investments. Segment revenues include our equity method earnings (losses) from our equity method investments and royalty earnings from Tinuum Group. These earnings are included within the Earnings from equity method investments and Royalties, related party line items in the Condensed Consolidated Statements of Operations. Key drivers to RC segment performance are operating and retained produced and sold RC, royalty-bearing tonnage, and the number of operating (leased or sold) and retained RC facilities. These key drivers impact our earnings and cash distributions from equity method investments.
2. EC - Our EC segment includes revenues and related expenses from the sale of ACI and DSI equipment systems, chemical sales, consulting services and other sales related to the reduction of emissions in the coal-fired electric generation process and the electric utility industry. These amounts are included within the respective revenue and cost of revenue line items 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 Condensed Consolidated Statements of Operations.

The following table presents our operating segment results for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Revenues:				
Refined Coal:				
Earnings in equity method investments	$12,120	$10,735	$36,089	$30,066
Royalties	2,804	2,064	6,425	3,922
	14,924	12,799	42,514	33,988
Emissions Control:				
Equipment sales	1,577	14,869	31,304	44,788
Chemicals	717	670	3,844	1,717
Consulting services	—	171	—	492
	2,294	15,710	35,148	46,997
Total segment reporting revenues	17,218	28,509	77,662	80,985
Adjustments to reconcile to reported revenues:				
Refined Coal:				
Earnings in equity method investments	(12,120)	(10,735)	(36,089)	(30,066)
Royalties	(2,804)	(2,064)	(6,425)	(3,922)
	(14,924)	(12,799)	(42,514)	(33,988)
Total reported revenues	$2,294	$15,710	$35,148	$46,997
Segment operating income (loss):				
Refined Coal (1)	$13,991	$11,913	$40,149	$33,974
Emissions Control	(895)	2,956	1,265	9,656
Total segment operating income	$13,096	$14,869	$41,414	$43,630

(1) Included within the RC segment operating income for the three months ended September 30, 2017 and 2016 is 453A interest expense of $0.6 million and $0.9 million, respectively. Included within the RC segment operating income for the nine months ended September 30, 2017 and 2016, are 453A interest expense of $1.6 million and $2.0 million, respectively, and interest expense related to the RCM6 note payable of zero and $0.3 million, respectively. Additionally, included within the RC segment operating income for the nine months ended September 30, 2016 is a $2.1 million gain on the sale of RCM6.

RC

The following table details the segment revenues of our respective equity method investments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Earnings from Tinuum Group	$11,050	$9,775	$33,363	$28,050
Earnings from Tinuum Services	1,061	960	2,717	2,573
Earnings (losses) from other	9	—	9	(557)
Earnings from equity method investments	$12,120	$10,735	$36,089	$30,066

For the three months ended September 30, 2017 and September 30, 2016

RC earnings increased primarily due to increased equity earnings in Tinuum Group during the three months ended September 30, 2017 compared to the same quarter in 2016, as presented above. For the three months ended September 30, 2017, Tinuum Group consolidated earnings increased $4.8 million compared to the same quarter in 2016 primarily due to an increase in operating RC facilities. Distributions received from Tinuum Group for the three months ended September 30, 2017 and 2016 were recorded directly to earnings, as our investment was in a memo account as discussed in Note 2.

As discussed above and in Note 2 of the Condensed Consolidated Financial Statements, our earnings in Tinuum Group may not equal our pro-rata share due to the accounting related to our equity method investment. As such, our earnings in Tinuum Group increased by $1.3 million during the three months ended September 30, 2017 compared to the same quarter in 2016 due to $11.1 million of cash distributions received that were in excess of our pro-rate share of cumulative earnings in Tinuum Group.

Earnings from Tinuum Services for the three months ended September 30, 2017 were relatively consistent compared to the same period in 2016.

RC earnings were positively impacted during the three months ended September 30, 2017 by an increase in royalties related to Tinuum Group's use of our M-45 License. During the three months ended September 30, 2017 and 2016, there were 6.9 million tons and 5.9 million tons, respectively, of RC produced using the M-45 Technology. The increase in Royalty revenue was driven by the increase in rent payments to Tinuum Group and the related tons subject to the M-45 License.

For the nine months ended September 30, 2017 and September 30, 2016

RC earnings increased primarily due to increased equity earnings in Tinuum Group during the nine months ended September 30, 2017 compared to the same period in 2016, as presented above. For the nine months ended September 30, 2017, Tinuum Group's consolidated earnings increased $20.4 million compared to the same period in 2016 due to an increase in both coal sales and lease revenues as well as a decrease in operating expenses related to the suspension of operations of all retained RC facilities in 2016. Distributions received from Tinuum Group for the nine months ended September 30, 2017 were recorded as earnings, as our investment was in a memo account during this period as discussed in Note 2. During the same period in 2016, a portion of the distributions were recorded as a reduction of the investment balance, resulting in lower earnings for that period.

As discussed above and in Note 2 of the Condensed Consolidated Financial Statements, our earnings in Tinuum Group may not equal our pro-rata share due to the accounting related to our equity method investment. As such, our earnings in Tinuum Group increased by $5.3 million during the nine months ended September 30, 2017 compared to the same period in 2016 due to $33.4 million of cash distributions received that were in excess of our pro-rata share of cumulative earnings in Tinuum Group.

RC earnings were positively impacted during the nine months ended September 30, 2017 due to lower operating losses associated with our RCM6 equity method investment, which was sold during the first quarter of 2016. Earnings from Tinuum Services for the nine months ended September 30, 2017 were consistent compared to the same period in 2016.

RC earnings were also positively impacted during the nine months ended September 30, 2017 by an increase in royalties related to Tinuum Group's use of our M-45 License. During the nine months ended September 30, 2017 and 2016, there were 14.5 million tons and 12.2 million tons, respectively, of RC produced using the M-45 Technology. The increase in Royalty revenue was driven by the increase in rent payments to Tinuum Group and the related tons subject to the M-45 License.

Additional discussion of our equity method investments is included above within our consolidated results and in Note 2 of the Condensed Consolidated Financial Statements.

EC

Discussion of revenues derived from our EC segment and costs related thereto are included above within our consolidated results.

For the three months ended September 30, 2017 and September 30, 2016

EC segment operating income decreased during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the decrease in revenue, as discussed above within the consolidated results. The decrease in EC operating income was offset by decreases in operating expenses quarter over quarter. Specifically, Payroll and benefits decreased quarter over quarter by $0.4 million. This decrease was due to decreased headcount quarter over quarter, which was largely due to management restructuring during 2016.

For the nine months ended September 30, 2017 and September 30, 2016
EC segment operating income decreased during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the decrease in revenue, as discussed above within the consolidated results. The decrease in EC operating income was offset by decreases in operating expenses period over period. Specifically, Payroll and benefits decreased period over period by $1.2 million. This decrease was due to decreased headcount, which was largely due to management restructuring in 2016. Offsetting these expense decreases period over period was the settlement in 2016 of the remaining amounts owed to the former DSI Business Owner, resulting in a reduction of EC segment expenses of $0.9 million during the nine months ended September 30, 2016 as well as an impairment charge of $0.5 million recorded during 2017 related to our cost method investment.

Liquidity and Capital Resources
Overview of Factors Affecting Our Liquidity
During the nine months ended September 30, 2017, our liquidity position was positively affected primarily due to distributions from Tinuum Group and Tinuum Services and borrowing availability under our bank ("Lender") line of credit ("Line of Credit" or "LOC").
Our principal sources of liquidity include:

- cash on hand;
- cash provided by our operations, including the release of restricted cash;
- distributions from Tinuum Group and Tinuum Services;
- royalty payments from Tinuum Group; and
- our Line of Credit

Our principal uses of liquidity during the nine months ended September 30, 2017 included:

- repurchases of shares of common stock pursuant to a modified Dutch Auction tender offer ("Tender Offer");
- payment of dividends;
- our business operating expenses, including federal and state tax payments;
- delivering on our existing contracts and customer commitments; and
- repayments on our Line of Credit.

On May 5, 2017, our Board authorized the commencement of a Tender Offer to purchase for cash up to 925,000 shares of our common stock at a price per share of not less than $9.40 nor greater than $10.80, for a maximum aggregate purchase price of $10.0 million, with an option to purchase an additional 2% of the outstanding shares of common stock if the Tender Offer was oversubscribed. The Tender Offer expired on June 6, 2017 and a total of 2,858,425 shares were validly tendered and not properly withdrawn at or below the final purchase price of $9.40 per share.
Because the tender offer was oversubscribed, we purchased a prorated portion of the shares properly tendered by each tendering stockholder (other than "odd lot" holders whose shares were purchased on a priority basis) at the final per share purchase price. Accordingly, we acquired 1,370,891 shares of our common stock ("Tendered Shares") at a price of $9.40 per share, for a total cost of approximately $12.9 million, excluding fees and other expenses related to the Tender Offer. The Tendered Shares represented approximately 6.2% of our outstanding shares of our common stock prior to the Tender Offer. The Tendered Shares include the 925,000 shares we initially offered to purchase and 445,891 additional shares that we elected to purchase pursuant to our right to purchase up to an additional 2% of our outstanding shares of common stock.
Our Board declared quarterly cash dividends (the "Dividends") of $0.25 per share on the outstanding shares of our common stock on each of June 14, 2017 and August 7, 2017, payable to stockholders of record as of the close of business on June 28, 2017 and August 21, 2017, respectively. The payments of $5.2 million and $5.3 million were subsequently made in July and September 2017, respectively. The total amount of Dividends paid by the Company during the three and nine months ended September 30, 2017 was $10.5 million. A portion of the Dividends remains accrued and represents dividends accumulated on nonvested shares of our common stock held by our employees and directors that contain dividend rights that are forfeitable and not payable until the underlying shares vest.

During the third quarter of 2017, we amended our Line of Credit ("Eleventh Amendment") with the Lender. The Eleventh Amendment decreased the LOC to $10 million due to decreased collateral requirements for the Company's outstanding letters of credit ("LC's"), extended the maturity date of the LOC to September 30, 2018, and permitted the LOC to be used as collateral (in place of restricted cash) for LC's up to $8 million related to equipment projects, the Royalty Award and certain other agreements. Additionally, under the Eleventh Amendment there is no minimum balance requirement based on the Company meeting certain conditions and maintaining minimum trailing twelve-month EBITDA (earnings before interest, taxes, depreciation and amortization as defined in the Eleventh Amendment) of $24.0 million.

As of September 30, 2017, there were no outstanding borrowings under the LOC, however, LC's in the aggregate amount of $4.5 million were secured under the LOC, resulting in borrowing availability of $5.5 million. As of September 30, 2017, pursuant to amendments contained in the Eleventh Amendment, we provided LC's ("Royalty Award LC's") totaling $4.5 million, related to obligations due under the Royalty Award that were secured under the LOC, resulting in remaining LC availability of $3.5 million. As of December 31, 2016, we had Royalty Award LC's totaling $7.2 million collateralized by restricted cash as the LOC was not available to secure LC’s as of that date.

During March 2017, a customer drew on an LC related to an equipment system in the amount of $0.8 million, which was funded by borrowing availability under the Line of Credit. We subsequently repaid this amount to the Lender during the three months ended March 31, 2017. We are contesting the draw on this LC and are pursuing actions to recover this amount from the customer.

Our ability to continue to generate sufficient cash flow required to meet ongoing operational needs and obligations, as well as future expected dividend payments and potential future share repurchases, depends upon several factors, including executing on our contracts and initiatives, receiving royalty payments from Tinuum Group and distributions from Tinuum Group and Tinuum Services, and increasing our share of the market for EC products, and, in particular EC chemicals sales. Increased distributions from Tinuum Group will likely be dependent upon both preserving existing contractual relationships and the securing of additional tax equity investors for those Tinuum Group facilities that are currently not operating.

Sources and Uses of Cash

Nine Months Ended September 30, 2017 vs. Nine Months Ended September 30, 2016

Cash and cash equivalents increased from $13.2 million as of December 31, 2016 to $26.8 million as of September 30, 2017. Restricted cash decreased from $13.7 million as of December 31, 2016 to zero as of September 30, 2017. The following table summarizes our cash flows for the nine months ended September 30, 2017 and 2016, respectively:

	Nine Months Ended September 30,		
(in thousands)	2017	2016	Change
Cash and cash equivalents and restricted cash provided by (used in):			
Operating activities	$(9,080)	$(15,495)	$6,415
Investing activities	32,959	26,389	6,570
Financing activities	(24,000)	(15,495)	(8,505)
Net change in cash and cash equivalents and restricted cash	$(121)	$(4,601)	$4,480

Additionally, the following table summarizes the cash flows of Tinuum Group, whose cash distributions most significantly impact our consolidated cash flow results, for the nine months ended September 30, 2017 and 2016, respectively:

	Nine Months Ended September 30,	
(in thousands)	2017	2016
Tinuum Group cash and cash equivalents, beginning of year	$10,897	$6,183
Cash provided by (used in):		
Operating activities	45,868	52,447
Investing activities	(4,456)	(2,473)
Financing activities	(40,024)	(47,590)
Net change in cash and cash equivalents	1,388	2,384
Tinuum Group cash and cash equivalents, end of period	$12,285	$8,567

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.

Deferred revenue and project costs resulted in a change in providing of operating cash flows on a net basis of $0.8 million due to production and completion of ACI and DSI equipment systems.

Our operating cash flows may also be significantly impacted by distributions from our equity method 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. For the nine months ended September 30, 2017, we received $5.5 million more in total cash distributions from equity method investees than we did for the nine months ended September 30, 2016 due to the suspension of operations of retained RC facilities that began in 2016, a decrease in RC facility installations by Tinuum Group that began in 2016 and an increase in invested facilities that commenced during the second half of 2016. Distributions received from our equity method investees reported as return on investment within operating cash flows decreased by $3.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 as a result of all distributions received from Tinuum Group being reported under investing cash flows for the nine months ended September 30, 2017. All distributions received from Tinuum Services were reported as return on investment within operating cash flows for the nine months ended September 30, 2017 and 2016.

Our cash spend for legal and professional fees for the nine months ended September 30, 2017 decreased by $2.2 million compared to the same period in 2016 as a result of the conclusion of the Restatement of our consolidated financial statements in April 2016.

Cash flow from investing activities

Distributions from equity method investees

Distributions received from our equity method investees reported as return in excess of investment basis within investing cash flows increased by $8.7 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. This increase was due to an increase in distributions received from Tinuum Group, all of which were reported under investing cash flows for the nine months ended September 30, 2017, compared to only $3.4 million of the total $28.1 million of distributions in the nine months ended September 30, 2016 being reported within operating cash flows.

Purchases of and contributions to equity method investees

On July 27, 2017, we purchased a 50% membership interest in GWN Manager from Tinuum Group for an upfront payment of $0.1 million.

Proceeds from sale of equity method investment

In March 2016, we sold our investment in RCM6. Proceeds from the sale included $1.8 million in cash and the assumption by the buyer of all unpaid amounts outstanding under the original note payable.

Cash flow from financing activities

Borrowings and repayments on Line of Credit

During March 2017, a customer drew on an LC related to an equipment system in the amount of $0.8 million, which was funded by borrowing availability under the Line of Credit. We subsequently repaid this amount to the Lender as of March 31, 2017.

Short-term borrowings

On June 30, 2016, we, the required lenders under the Credit Agreement and the Administrative Agent agreed to terminate the Credit Agreement, and on June 30, 2016, we paid the payoff amount of $9.9 million. Additionally, during the nine months ended September 30, 2016, we repaid $0.6 million in debt issuance costs related to the Second Amendment of the Credit Agreement. Additionally, during the nine months ended September 30, 2016, we used $1.2 million of cash for repayments of principal on the RCM6 and the DSI Business Owner notes payable, as described in Note 3 of the Condensed Consolidated Financial Statements.

Equity award activity

During the nine months ended September 30, 2017 and 2016, we used $0.5 million and $0.2 million, respectively, for the repurchase of shares to satisfy tax withholdings upon the vesting of equity based awards.

Cash dividends paid

During the nine months ended September 30, 2017, we made payments of $10.5 million related to dividends declared on our common stock.

Repurchase of common stock

As described in Note 6 of the Condensed Consolidated Financial Statements, on May 5, 2017, the Board authorized the commencement of the Tender Offer. We acquired 1,370,891 shares of our common stock at a price of $9.40 per share, for a total cost of approximately $13.0 million, including fees and other expenses related to the Tender Offer.

Contractual Obligations

During the nine months ended September 30, 2017, there were no material changes to our contractual obligations outside of the ordinary course of business from those reported as of December 31, 2016, except for a reduction in the estimated obligations due under the Royalty Award, as described in Note 5 of the Condensed Consolidated Financial Statements, and the quarterly dividend program that commenced during the June 2017 quarter.

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2017, 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 2016 10-K, which included operating leases, LC's 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 2016 10-K.

Recently Issued Accounting Standards

Refer to Note 1 of the Condensed Consolidated Financial Statements, included in Item 1 of this Quarterly Report for new accounting guidance issued during the nine months ended September 30, 2017 and subsequent thereto through the date of this Quarterly Report.

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, as amended, or the Exchange Act, that involve risks and uncertainties. In particular, such forward-looking statements are found in this Part I, Item 2 above. Words or phrases such as "anticipates," "believes," "expects," "intends," "plans," "estimates," "predicts," the negative expressions of such words, or similar expressions are used in this Quarterly 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 MATS, and how it may affect demand for ACI and DSI systems, as well as chemical products;
(b) one of our major customer's purchase of chemicals in the future;
(c) the continuity of dividend;
(d) DOL investigation of our Plan;
(e) the expected lack of liability in connection with the Tinuum Group Party Guarantees;
(f) expected demand for our consulting services.

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 and sale of RC to qualify for Section 45 tax credits;
(c) 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;
(d) 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;
(e) we will be able to meet any performance guarantees we make and continue to meet our other obligations under contracts;
(f) 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;
(g) we will be able to establish and retain key business relationships with other companies;
(h) orders we anticipate receiving will be received;
(i) governmental audits of our costs incurred under DOE contracts will not result in material adjustments to amounts we have previously received under those contracts;
(j) 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;
(k) we will be able to effectively compete against others;

(l) we will be able to meet any technical requirements of projects we undertake;

(m) Tinuum Group will be able to sell or lease the remaining RC facilities, including RC facilities that may be returned to Tinuum Group, to third party investors; and

(n) we will be able to utilize our portion of the Section 45 tax credits generated by production and sale of RC from retained facilities.

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 US 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 RC or such RC to qualify for Section 45 tax credits; termination of or amendments to the contracts for sale or lease of 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; 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. You are cautioned not to place undue reliance on the forward-looking statements made in this 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 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

We are most significantly exposed to interest rate risk related to our obligations to pay 453A interest to the IRS. Additionally, we are 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 our 2016 Form 10-K.

Foreign Currency Risk

There have been no material changes from those reported in our 2016 Form 10-K.

Commodity Price Risk

There have been no material changes from those reported in our 2016 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a 15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have evaluated, under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Exchange Act) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are 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 us.

Item 1A. Risk Factors

Except as noted below, 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, 2016 and those disclosed in our Form 10-Q filing for the quarterly period ended June 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 6, 2017, the Company entered into a settlement agreement with a former third-party service provider to the Company in the amount of $3.5 million. The settlement amount is expected to be paid to the Company during the fourth quarter of 2017.

Item 6. Exhibits

Exhibit No.	Description	Form	File No.	Incorporated by Reference Exhibit	Filing Date
10.1	Eleventh Amendment 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, 2017*				
31.1	Certification of Chief Executive Officer and Principal 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 Principal 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.

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)

November 6, 2017 By: /s/ L. Heath Sampson
L. Heath Sampson
President, Chief Executive Officer and Treasurer
(Principal Executive and Financial Officer)

November 6, 2017 By: /s/ Greg P. Marken
Greg P. Marken
Chief Accounting Officer and Secretary
(Principal Accounting Officer)

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