Midwest Energy Emissions Corp.
Form 10-Q
November 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

Commission file number **000-33067**

MIDWEST ENERGY EMISSIONS CORP.

(Exact name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**87-0398271** (I.R.S. Employer Identification No.)
670 D Enterprise Drive	
Lewis Center, Ohio (Address of principal Executive offices)	**43035** (Zip Code)

(614) 505-6115

(Registrant’s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

State the number of shares outstanding of each of the Issuer’s classes of common stock, as of the latest practicable date: Common, $.001 par value per share 76,246,113 outstanding as of November 20, 2017.

MIDWEST ENERGY EMISSIONS CORP.

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PART I – FINANCIAL INFOMATION

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements," as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. Forward-looking statements are generally identified by using words such as "anticipate," "believe," "plan," "expect," "intend," "will," and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. Forward-looking statements in this report are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed under the caption "Risk Factors" in the Company's 2016 Form 10-K. In addition, matters that may cause actual results to differ materially from those in the forward-looking statements include, among other factors, the gain or loss of a major customer, change in environmental regulations, disruption in supply of materials, capacity factor fluctuations of power plant operations and power demands, a significant change in general economic conditions in any of the regions where our customer utilities might experience significant changes in electric demand, a significant disruption in the supply of coal to our customer units, the loss of key management personnel, availability of capital and any major litigation regarding the Company. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason.

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ITEM 1 – FINANCIAL INFORMATION

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES

Index to Condensed Consolidated Financial Information

As of the and for the nine months ended September 30, 2017

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MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(UNAUDITED)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,363,728	$ 7,751,557
Accounts receivable	4,083,478	3,553,096
Inventory	805,576	609,072
Prepaid expenses and other assets	174,822	199,495
Total current assets	7,427,604	12,113,220
Property and equipment, net	2,772,078	2,569,354
Deferred tax asset	500,000	500,000
Intellectual Property/Patents, net	2,985,162	52,945
Customer acquisition costs, net	334,591	642,203
Total assets	$ 14,019,435	$ 15,877,722
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	$ 2,039,911	$ 4,363,553
Current portion of notes payable	2,375,000	1,500,000
Current portion of equipment notes payable	60,467	39,499
Customer credits	167,000	590,206
Total current liabilities	4,642,378	6,493,258
Notes payable, net of discount and issuance costs	10,271,604	11,678,669
Convertible notes payable, net of discount and issuance costs	1,323,146	1,142,154
Warrant liability	163,000	1,313,000
Accrued interest	38,750	78,750
Equipment notes payable	183,048	143,135
Total liabilities	16,621,926	20,848,966
Stockholders' deficit		
Preferred stock, $.001 par value: 2,000,000 shares authorized	-	-
Common stock; $.001 par value; 150,000,000 shares authorized; 76,246,113 shares issued and outstanding as of September 30, 2017 73,509,663 shares issued and outstanding as of December 31, 2016	76,246	73,510
Additional paid-in capital	52,109,076	49,838,469
Accumulated deficit	(54,787,813)	(54,883,223)

Total stockholders' deficit		(2,602,491)		(4,971,244)
Total liabilities and stockholders' deficit	$	14,019,435	$	15,877,722

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

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MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
Revenues				
Product sales	8,075,510	11,453,152	20,472,465	21,162,950
Equipment sales	2,975	143,166	787,081	2,699,051
Demonstrations and consulting services	369,482	175,100	546,982	674,938
Total revenues:	8,447,967	11,771,418	21,806,528	24,536,939
Costs and expenses:				
Cost of sales	5,509,204	7,821,028	14,290,902	17,612,843
Selling, general and administrative expenses	1,910,020	2,233,410	6,856,558	5,075,607
Total costs and expenses	7,419,224	10,054,438	21,147,460	22,688,450
Operating income	1,028,743	1,716,980	659,068	1,848,489
Other (expense) income				
Interest expense	(541,855)	(972,930)	(1,627,248)	(4,079,022)
Letter of credit fees	(52,667)	(61,333)	(173,333)	(164,667)
Change in value of warrant liability	56,000	(9,984,541)	919,023	(14,241,141)
Gain on legal settlements	379,000	-	317,900	-
Total other (expense) income	(159,522)	(11,018,804)	(563,658)	(18,484,830)
Net income (loss)	$ 869,221	$ (9,301,824)	$ 95,410	$ (16,636,341)
Net income (loss) per common share - basic and diluted:	$ 0.01	$ (0.19)	$ 0.00	$ (0.35)
Weighted average common shares outstanding	75,865,678	47,918,064	74,662,691	47,546,461

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

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MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(UNAUDITED)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated (Deficit)	Total Stockholders' Deficit
Balance - December 31, 2016	73,509,663	$ 73,510	$ 49,838,469	$ (54,883,223)	(4,971,244)
Stock issued upon debt conversion	51,236	51	25,567	-	25,618
Stock issued upon cashless warrant exercise	630,214	630	230,347	-	230,977
Stock issued per settlement agreement	130,000	130	60,970	-	61,100
Stock issued for the acquisition of patents rights	925,000	925	517,075	-	518,000
Issuance of stock options	-	-	1,275,773	-	1,275,773
Stock issued to non-employees	1,000,000	1,000	160,875	-	161,875
Net loss for the period	-	-	-	95,410	95,410
Balance - September 30, 2017	76,246,113	$ 76,246	$ 52,109,076	$ (54,787,813)	$ (2,602,491)

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

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MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
Cash flows from operating activities		
Net income (loss)	$ 95,410	$ (16,636,341)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	1,437,648	967,562
Amortization of license fees	1,950	4,410
Amortization of discount of notes payable and convertible notes payable	558,781	1,282,283
Amortization of debt issuance costs	115,144	500,002
Amortization of customer acquisition costs	307,612	322,605
Amortization of Patents	83,833	-
Depreciation expense	558,036	314,906
(Gain) loss on change in value of warrant liability	(919,023)	14,241,139
Settlement Expense	61,100	-
Debt conversion costs	-	1,096,000
PIK Interest	-	607,401
Change in assets and liabilities		
(Increase) in accounts receivable	(530,382)	(4,280,516)
(Increase) decrease in inventory	(196,504)	1,949,996
Decrease (increase) in prepaid expenses and other assets	24,673	(20,129)
(Decrease) increase in accounts payable and accrued liabilities	(2,323,642)	4,240,791
Decrease in deferred revenue	-	(2,281,760)
Decrease in customer credits	(423,206)	-
Net cash (used in) provided by operating activities	(1,148,570)	2,308,349
Cash flows used in investing activities		
Purchase of property and equipment	(698,941)	(1,347,836)
Purchase of intellectual property	(2,500,000)	-
Net cash used in investing activities	(3,198,941)	(1,347,836)
Cash flows from financing activities		
Payment of promissory notes	(1,000,000)	-
Payment of equipment notes payable	(40,318)	(22,346)
Proceeds from the issuance of common stock upon warrant exercise	-	26,357

Net cash (used in) provided by financing activities		(1,040,318)		4,011
Net (decrease) increase cash and cash equivalents		(5,387,829)		964,524
Cash and cash equivalents - beginning of period		7,751,557		1,083,280
Cash and cash equivalents - end of period	$	2,363,728	$	2,047,804
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	1,011,427	$	279,293
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS				
Equipment purchases included in accounts payable	$	1,594	$	-
Equipment purchases included in equipment notes payable	$	101,199	$	103,428
Stock issued for interest on convertible notes payable	$	-	$	103,635
Stock issued for the acquisition of patents rights	$	518,000	$	-
Stock issued for settlement	$	61,100	$	-
Conversion of accounts receivable to customer aquistion costs	$	-	$	188,225
Conversion of accrued interest to debt	$	-	$	719,733
Stock issued upon debt conversion	$	25,618	$	-
Stock issued upon cashless warrant exercise	$	230,977	$	-

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

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Midwest Energy Emissions Corp. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Note 1 - Organization

Midwest Energy Emissions Corp.

Midwest Energy Emissions Corp. (the "Company") is organized under the laws of the State of Delaware with 150,000,000 authorized shares of common stock, par value $.001 per share and 2,000,000 authorized shares of preferred stock, par value $0.001 per share.

MES, Inc.

MES, Inc. is incorporated in the State of North Dakota. MES, Inc. is a wholly owned subsidiary of Midwest Energy Emissions Corp. and is engaged in the business of developing and commercializing state of the art control technologies relating to the capture and control of mercury emissions from coal fired boilers in the United States and Canada.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required for complete financial statements and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly the financial position as of September 30, 2017, and results of operations, changes in stockholders' deficit and cash flows for all periods presented. The interim results presented are not necessarily indicative of results that can be expected for a full year.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. The Company maintains its cash in three accounts with one financial institution, which at times may exceed federally insured limits.

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Accounts Receivable

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At September 30, 2017 and December 31, 2016, the allowance for doubtful accounts was zero.

Inventory

Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For consolidated financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 2 to 5 years.

Expenditures for repairs and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. Management periodically reviews the carrying value of its property and equipment for impairment.

Recoverability of Long-Lived and Intangible Assets

The Company has adopted ASC 360-10, *Property, Plant and Equipment* (“ASC 360-10”). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of the long-lived and or intangible assets would be adjusted, based on estimates of future discounted cash flows. During the quarter ended September 30, 2017, as a result of recurring losses and an accumulated deficit, the Company identified a triggering event requiring a test for the recoverability of long-lived assets and intangible assets. Assessing the recoverability of long-lived assets and intangible assets requires significant judgments and estimates by management. Management concluded that the fair value of long-lived assets and intangible assets exceeded their carrying value and as such, no impairment charges were recognized for the quarters ended September 30, 2017 and 2016, respectively.

A significant decrease in the market price of a long-lived asset, adverse change in the use or condition of a long-lived asset, adverse change in the business climate or legal or regulatory factors impacting a long-lived asset and intangible assets and continued operating losses, accumulated deficit and cash flow deficiencies among other indicators, could cause a future assessment to be performed which may result in an impairment of long-lived assets and intangible assets resulting in a material adverse effect on the financial position and results of operations of the Company.

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Stock-Based Compensation

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, *Compensation—Stock Compensation* (“ASC 718”), which requires equity-based compensation, be reflected in the consolidated financial statements over the period of service which is typically the vesting period based on the estimated fair value of the awards.

Derivative Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks; however, the Company has certain financial instruments that are embedded derivatives associated with capital raises and common stock purchase warrants. The Company evaluates all its financial instruments to determine if those contracts or any potential embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with FASB ASC 815-10. This accounting treatment requires that the carrying amount of any embedded derivatives be recorded at fair value at issuance and marked-to-market at each balance sheet date. In the event that the fair value is recorded as a liability, as is the case with the Company, the change in the fair value during the period is recorded as either income or expense. Upon conversion or exercise, the derivative liability is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

Fair Value of Financial Instruments

The fair value hierarchy has three levels based on the inputs used to determine fair value, which are as follows:

- *Level 1* — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.
- *Level 2* — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3* — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Cash and cash equivalents were the only asset measured at fair value on a recurring basis by the Company at September 30, 2017 and December 31, 2016 and is considered to be Level 1. Warrant liability is considered to be Level 3, and is the only liability measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016.

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Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, customer credits and short-term debt. The carrying amounts of these financial instruments approximated fair value at September 30, 2017 and December 31, 2016 due to their short-term maturities. The fair value of the convertible promissory notes payable at September 30, 2017 and December 31, 2016 approximated the carrying amount as the notes were issued during the three years ended December 31, 2016 at interest rates prevailing in the market and interest rates have not significantly changed as of September 30, 2017. The fair value of the convertible promissory notes payable was determined on a Level 2 measurement.

The Company has entered into certain financial instruments and contracts; such as, equity financing arrangements for the issuance of common stock, which include anti-dilution arrangements and detachable stock warrants that are i) not afforded equity classification, ii) embody risks not clearly and closely related to host contracts, or iii) may be net-cash settled by the counterparty. These instruments are recorded as derivative liabilities, at fair value at the issuance date. Subsequent changes in fair value are recorded through the consolidated statements of operations.

The Company's derivative liabilities are related to detachable common stock purchase warrants ("warrants") issued in conjunction with debt and warrants issued to the placement agents for financial instrument issuances. We estimate fair values of the warrants that do contain "Down Round Protections" utilizing valuation models and techniques that have been developed and are widely accepted that take into account the additional value inherent in "Down Round Protection." These widely accepted techniques include "Modified Binomial", "Monte Carlo Simulation" and the "Lattice Model." The "core" assumptions and inputs to the "Modified Binomial" model are the same as for "Black-Scholes", such as trading volatility, remaining term to maturity, market price, strike price, and risk free rates; all Level 2 inputs. Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable. However, a key input to a "Modified Binomial" model (in our case, the "Monte Carlo Simulation", for which we engaged an independent valuation firm to perform) is the probability of a future capital raise. By definition, this input assumption does not meet the requirements for Level 1 or Level 2 outlined above; therefore, the entire fair value calculation is deemed to be Level 3 under accounting requirements due to this single Level 3 assumption. This input to the Monte Carlo Simulation model was developed with significant input from management based on its knowledge of the business, current financial position and the strategic business plan with its best efforts.

As discussed above, financial liabilities are considered Level 3 when their fair values are determined using pricing models or similar techniques and at least one significant model assumption or input is unobservable. For the Company, the Level 3 financial liability is the derivative liability related to the warrants that include "Down Round Protection" and they were valued using the "Monte Carlo Simulation" technique. This technique, while the majority of inputs are Level 2, necessarily incorporates various assumptions associated with a Capital Raise which are unobservable and, therefore, a Level 3 input.

The table below provides a summary of the changes in fair value of the warrant liability measured at fair value on a recurring basis:

Balance at January 1, 2017	$ 1,313,000
Exercise of warrants	(230,977)
Change in value of warrant liability	(919,023)
Balance at September 30, 2017	$ 163,000

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Revenue Recognition

The Company records revenue from sales in accordance with ASC 605, *Revenue Recognition* ("ASC 605"). The criteria for recognition are as follows:

1. Persuasive evidence of an arrangement exists;

Determination of criteria (3) and (4) is based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments is provided for in the same period the related sales are recorded.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's consolidated financial statements are based on a more-likely-than-not recognition threshold. The Company did not have any unrecognized tax benefits at September 30, 2017 and December 31, 2016. When necessary, the Company would accrue penalties and interest related to unrecognized tax benefits as a component of income tax expense.

The Company and its subsidiaries file a consolidated income tax return in the U.S. federal jurisdiction and three state jurisdictions. The Company is no longer subject to U.S. federal examinations for years prior to 2013 or state tax examinations for years prior to 2012.

Basic and Diluted Income (Loss) per Common Share

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted income (loss) per share reflects the potential dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. There were no dilutive potential common shares as of September 30, 2017 and 2016, because the market price of the Company’s common share is below the conversion price of the outstanding common stock equivalents and basic and diluted losses per common share are the same. For the nine months ended September 30, 2017, basic and diluted earnings per share approximated each other. Dilutive potential common shares as of September 30, 2017 and 2016 were approximately 3.1 million shares and 60.20 million shares, respectively. Anti-dilutive potential common shares as of September 30, 2017 and 2016 were approximately 16.1 million shares and .6 million shares, respectively.

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Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash and equivalents on deposit with financial institutions and accounts receivable. The Company's cash as of September 30, 2017 and December 31, 2016 is on deposit in a non-interest-bearing transaction account that is subject to FDIC deposit insurance limits. For the quarters ended September 30, 2017 and 2016, 100% of the Company's revenue related to eight customers, respectively. For the nine months ended September 30, 2017 and 2016, 100% of the Company's revenue related to eight and six customers, respectively. At September 30, 2017 and December 31, 2016, 100% of the Company's accounts receivable related to eight and six customers, respectively.

Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Recently Issued Accounting Standards

In May, 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) Summary - The FASB has made available Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles-Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. The core principle of the guidance is that an entity should recognize 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. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In February, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-11, *Leases (Topic 842).* Under the new guidance, lessees will be required to recognize a lease liability and right-of-use asset at the commencement date for all leases, with the exception of short term leases. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In March, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, *Stock Compensation (Topic 718).* This amendment is intended to improve and simplify the accounting for employee share-based payments including areas such as (a) income tax consequences (b) classification of awards as either equity or liabilities and (c) classification on the statement of cash flows.. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company has adopted this standard in 2017 and the impact on the Company's consolidated financial statements was not material.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

Note 3 - Inventory

The Company held product supply inventory valued at $677,905 and $414,384 and other inventory valued at $127,671 and $194,688 as of September 30, 2017 and December 31, 2016, respectively.

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Note 4 - Property and Equipment, Net

Property and equipment at September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017	December 31, 2016
Equipment & Installation	$ 1,965,659	$ 1,823,594
Trucking equipment	1,043,924	926,614
Computer equipment and software	116,006	111,518
Office equipment	28,361	27,155
Total equipment	3,153,950	2,888,881
Less: accumulated depreciation	1,910,659	1,420,755
Construction in process	1,528,787	1,101,228
Property and equipment, net	$ 2,772,078	$ 2,569,354

The Company uses the straight-line method of depreciation over 2 to 5 years. During the nine months ended September 30, 2017 and 2016 depreciation expense was $558,036, and $314,906, respectively.

Note 5 - License Agreement

On January 15, 2009, the Company entered into an "Exclusive Patent and Know-How License Agreement Including Transfer of Ownership" (the “License Agreement”) with the Energy and Environmental Research Center Foundation, a non-profit entity (“EERCF”). Under the terms of the License Agreement, the Company had been granted an exclusive license by EERCF with respect to certain patented technology to develop, make, have made, use, sell, offer to sell, lease, and import the technology in any coal-fired combustion systems (power plant) worldwide and to develop and perform the technology in any coal-fired power plant in the world. Amendments No. 4 and No. 5 to the License Agreement were made effective as of December 16, 2013 and August 14, 2014, respectively, expanding the number of patents covered, eliminated certain contract provisions and compliance issues and restructured the fee payments and buyout provisions while granting EERCF equity in the Company. The License Agreement applied to various domestic and foreign patents and patent applications which has formed the basis of the Company’s mercury control technology.

Under the terms of the License Agreement, the Company paid EERCF $100,000 in 2009 for the license to use the patents and at the option of the Company can pay $2,500,000 and issue 925,000 shares of common stock for the assignment of the patents or pay the greater of the license maintenance fees or royalties on product sales for continued use of the patents (see below). The license maintenance fees are $25,000 due monthly beginning in January 1, 2014 and continuing each month thereafter. The running royalties are $100 per one megawatt of electronic nameplate capacity and $100 per three megawatt per hour for the application to thermal systems to which licensed products or licensed processes are sold by the Company, associate and sublicenses. Running royalties are payable by the Company within 30 days after the end of each calendar year to the licensor and may be credited against license maintenance fees paid. In January 2017 $722,380 was paid to the EERCF for 2016 royalties, and this was accrued as of December 31, 2016.

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On April 24, 2017, the Company closed on the acquisition from EERCF of all patent rights, including all patents and patents pending, domestic and foreign, relating to the foregoing technology. A total of 42 domestic and foreign patents and patent applications were included in the acquisition. In accordance with the terms of the License Agreement, the patent rights were acquired for the purchase price of (i) $2,500,000 in cash, and (ii) 925,000 shares of common stock of which 628,998 shares were issued to EERCF and 296,002 were issued to the inventors who had been designated by EERCF. Therefore, the Company has not accrued royalty expense as of September 30, 2017. As a result of the acquisition of the patent rights, no additional monthly license maintenance fees and annual running royalties shall be due and owing to the EERCF following closing which fees and royalties have now been eliminated.

The Company was required to pay EERCF 35% of all sublicense income received by the Company, excluding royalties on sales by sublicensees. Sublicense income is payable by the Company within 30 day after the end of each calendar year to the licensor. On April 24, 2017, this requirement ended upon the Company's payment for the assignment and acquisition of the patent rights. There was no sublicense income in the quarters ended September 30, 2017 or September 30, 2016, respectively.

License and patent costs capitalized as of September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017	December 31, 2016
Patents	$ 3,068,995	$ -
License	-	100,000
Less: Accumulated Amortization	(83,833)	(47,055)
License, Net	$ 2,985,162	$ 52,945

The Company is currently amortizing its patents over their estimated useful life of 15 years. Amortization expense for the nine months ended September 30, 2017 and 2016 was $85,783 and $4,410, respectively. Amortization expense for the quarters ended September 30, 2017 and 2016 was $49,310 and $4,410, respectively. Estimated annual amortization for each of the next five years is approximately $201,500.

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Note 6 –Notes Payable

The Company has the following notes payable outstanding as of September 30, 2017 and December 31, 2016:

	2017	2016
Secured convertible promissory notes which mature on July 31, 2018, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share.	$ 1,550,000	$ 1,575,000
Secured promissory note which matures on June 15, 2018 and bears interest at 12% per annum.	1,646,686	2,646,686
Unsecured promissory note which matures on December 15, 2020, and bears interest at LIBOR (1.32% and 0.99% as of September 30, 2017 and December 31, 2016, respectively) + 500 per annum.	13,000,000	13,000,000
Total notes payable before discount and debt issuance costs	16,196,686	17,221,686
Less discounts	(2,028,735)	(2,587,519)
Less debt issuance costs	(198,201)	(313,344)
Total notes payable	13,969,750	14,320,823
Less current portion	2,375,000	1,500,000
Notes payable, net of current portion	$ 11,594,750	$ 12,820,823

As of September 30, 2017, scheduled principal payments due on notes payable are as follows:

Twelve months ended September 30,	
2018	$ 2,375,000
2019	4,425,000
2020	3,000,000
2021	6,396,686
	$ 16,196,686

From July 30, 2013 through December 24, 2013, the Company sold convertible notes and warrants to unaffiliated accredited investors totaling $1,902,500. The notes have a term of three years, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share. For each dollar invested, the investor received two warrants to purchase one shares of common stock of the Issuer at an exercise price of $0.75 per share. The notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the nine months ended September 30, 2017 and 2016, was $116,875 and $257,194, respectively. A discount on the notes payable of $841,342 was recorded based on the value of the warrants issued using a Black-Scholes options pricing model. Amortized interest expense for the nine months ended September 30, 2017 and 2016 on this discount was $115,182 and $114,511, respectively. As of September 30, 2017 and December 31, 2016, total principal of $1,550,000 and $1,575,000 was outstanding on these notes.

New AC Midwest Secured Note

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