

Midwest Energy Emissions Corp.  
Form 10-Q  
August 14, 2018

**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 **June 30, 2018**

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)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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. "

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
Yes " 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 August 14, 2018.



**MIDWEST ENERGY EMISSIONS CORP.**

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**PART I – FINANCIAL INFORMATION**

**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 2017 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**

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**MIDWEST ENERGY EMISSIONS CORP AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2018 AND DECEMBER 31, 2017**  
**(UNAUDITED)**

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 493,981	\$ 2,418,427
Accounts receivable	832,080	2,931,353
Inventory	496,712	659,579
Prepaid expenses and other assets	164,646	210,535
<b>Total current assets</b>	<b>1,987,419</b>	<b>6,219,894</b>
Property and equipment, net	2,632,895	2,728,993
Intellectual property, net	2,834,262	2,934,862
Customer acquisition costs, net	103,400	172,333
<b>Total assets</b>	<b>\$ 7,557,976</b>	<b>\$ 12,056,082</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,481,924	\$ 1,795,703
Current portion of notes payable	3,125,000	2,500,000
Current portion convertible notes payable, net	968,470	1,461,417
Current portion of equipment notes payable	62,623	61,177
Customer credits	167,000	167,000
Accrued interest	51,665	77,500
Deferred revenue	-	517,060
<b>Total current liabilities</b>	<b>5,856,682</b>	<b>6,579,857</b>
Notes payable, net of discount and issuance costs	9,127,665	9,733,361
Equipment notes payable	136,308	167,650
<b>Total liabilities</b>	<b>15,120,655</b>	<b>16,480,868</b>
<b>Stockholders' deficit</b>		
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 June 30, 2018		
76,246,113 shares issued and outstanding as of December 31, 2017	76,246	76,246
Additional paid-in capital	42,639,741	42,165,620
Accumulated deficit	(50,278,666)	(46,666,652)

<b>Total stockholders' deficit</b>	(7,562,679)	(4,424,786)
<b>Total liabilities and stockholders' deficit</b>	\$ 7,557,976	\$ 12,056,082

*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 SIX MONTHS ENDED JUNE 30, 2018 AND 2017**  
**(UNAUDITED)**

	<b>For the Three Months Ended  June 30,  2018</b>	<b>For the Three Months Ended  June 30,  2017</b>	<b>For the Six Months Ended  June 30,  2018</b>	<b>For the Six Months Ended  June 30,  2017</b>
<b>Revenues</b>				
Product sales	2,414,951	7,112,722	4,474,770	12,396,956
Equipment sales	-	776,946	9,146	784,106
Demonstrations and consulting services	36,600	41,500	88,746	177,500
<b>Total revenues:</b>	<b>2,451,551</b>	<b>7,931,168</b>	<b>4,572,662</b>	<b>13,358,562</b>
<b>Costs and expenses:</b>				
Cost of sales	1,882,612	4,995,776	3,590,926	8,781,697
Selling, general and administrative expenses	1,709,763	2,313,357	3,491,130	5,007,641
<b>Total costs and expenses</b>	<b>3,592,375</b>	<b>7,309,133</b>	<b>7,082,056</b>	<b>13,789,338</b>
<b>Operating (loss) income</b>	<b>(1,140,824)</b>	<b>622,035</b>	<b>(2,509,394)</b>	<b>(430,776)</b>
<b>Other (expense) income</b>				
Interest expense	(516,082)	(544,918)	(1,029,583)	(1,085,393)
Letter of credit fees	-	(60,667)	(29,000)	(120,667)
Loss on debt exchange	(44,036)	-	(44,036)	-
<b>Total other (expense) income</b>	<b>(560,118)</b>	<b>(605,585)</b>	<b>(1,102,619)</b>	<b>(1,206,060)</b>
<b>Net (loss) income</b>	<b>\$ (1,700,942)</b>	<b>\$ 16,450</b>	<b>\$ (3,612,013)</b>	<b>\$ (1,636,836)</b>
<b>Net (loss) income per common share - basic and diluted:</b>	<b>\$ (0.02)</b>	<b>\$ 0.00</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>
<b>Weighted average common shares outstanding</b>	<b>76,246,113</b>	<b>74,493,909</b>	<b>76,246,113</b>	<b>74,051,228</b>

*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 SIX MONTHS ENDED JUNE 30, 2018**  
**(UNAUDITED)**

	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated (Deficit)	Total Stockholders' Deficit
<b>Balance - December 31, 2017</b>	76,246,113	\$ 76,246	\$ 42,165,620	\$ (46,666,652)	(4,424,786)
Issuance of stock options	-	-	245,870	-	245,870
Issuance of warrants			89,500	-	89,500
Stock issued for consulting agreement			138,750	-	138,750
Net loss for the period	-	-	-	(3,612,013)	(3,612,013)
<b>Balance - June 30, 2018</b>	76,246,113	\$ 76,246	\$ 42,639,740	\$ (50,278,665)	\$ (7,562,679)

*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 SIX MONTHS ENDED JUNE 30, 2018 AND 2017**  
**(UNAUDITED)**

	<b>For the Six Months Ended June 30, 2018</b>	<b>For the Six Months Ended June 30, 2017</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (3,612,013)	\$ (1,636,836)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Stock based compensation	384,620	1,236,783
Amortization of license fees	-	2,940
Amortization of discount of notes payable	281,001	369,714
Amortization of debt issuance costs	76,320	76,984
Amortization of customer acquisition costs	68,934	220,816
Amortization of EERCF Patents	100,602	33,534
Depreciation expense	227,968	366,817
Loss on debt exchange	44,036	-
Settlement Expense	-	61,100
<b>Change in assets and liabilities</b>		
Decrease (Increase) in accounts receivable	2,099,273	(655,318)
Decrease (Increase) in inventory	162,867	(299,985)
Decrease in prepaid expenses and other assets	45,889	3,337
(Decrease) in accounts payable and accrued liabilities	(251,374)	(2,227,879)
(Decrease) in deferred revenue and customer credits	(517,060)	-
<b>Net cash used in operating activities</b>	<b>(888,937)</b>	<b>(2,447,993)</b>
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	(131,915)	(586,429)
Purchase of intellectual property	-	(2,500,000)
<b>Net cash used in investing activities</b>	<b>(131,915)</b>	<b>(3,086,429)</b>
<b>Cash flows from financing activities</b>		
Payment of promissory notes	(875,000)	(500,000)
Payment of equipment notes payable	(28,594)	(26,434)
<b>Net cash used in financing activities</b>	<b>(903,594)</b>	<b>(526,434)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,924,446)</b>	<b>(6,060,856)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>2,418,427</b>	<b>7,751,557</b>

<b>Cash and cash equivalents - end of period</b>	\$	493,981	\$	1,690,701
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**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for:

Interest	\$	505,431	\$	681,687
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**SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS**

Equipment purchases included in accounts payable	\$	-	\$	101,304
Stock issued for interest on convertible notes payable	\$	-	\$	25,618
Stock issued for the acquisition of patents rights	\$	-	\$	518,000
Stock issued for settlement	\$	-	\$	61,100

*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, 2017.

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly the financial position as of June 30, 2018, 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 June 30, 2018 and December 31, 2017, 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 June 30, 2018, 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 June 30, 2018 and 2017, respectively.

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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.

*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.

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 June 30, 2018 and December 31, 2017 and is considered to be Level 1.

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, deferred revenue, customer credits and short-term debt. The carrying amounts of these financial instruments approximated fair value at June 30, 2018 and December 31, 2017 due to their short-term maturities. The fair value of the convertible promissory notes payable at June 30, 2018 and December 31, 2017 approximated the carrying amount as the notes were issued at interest rates prevailing in the market at the time and interest rates have not significantly changed as of June 30, 2018. The fair value of the convertible promissory notes payable was determined on a Level 2 measurement.

*Revenue Recognition*

The Company records revenue in accordance with ASC 606, Revenue from Contracts with Customers (“ASC 606”). The Company’s revenues are primarily comprised of sales of products. Revenue is recognized when the Company satisfies its performance obligation under the contract by transferring the promised product to its customer that obtains control of the product. A performance obligation is a promise in a contract to transfer a distinct product to a customer. Most of the Company’s contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales and other taxes are excluded from revenues. Invoiced shipping and handling costs are included in revenue.

The Company’s revenue is primarily from products transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product, which is generally when product title passes to the customer upon shipment.

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The Company generated revenues of \$4,572,662 and \$13,358,562 for the six months ended June 30, 2018 and 2017, respectively and \$2,451,551 and \$7,931,168 for the quarters ended June 30, 2018 and 2017, respectively. The Company generated revenue for the six months ended June 30, 2018 and 2017 by delivering product and equipment to its commercial customers and completing demonstrations of its technologies at potential customer sites.

*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 June 30, 2018 and December 31, 2017. 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 2014 or state tax examinations for years prior to 2013.

*Basic and Diluted Income (Loss) per Common Share*

Basic net loss per common share is computed using the weighted average number of common shares outstanding. Diluted 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 June 30, 2018 because the Company incurred net losses and basic and diluted losses per common share are the same.

*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 June 30, 2018 and December 31, 2017 is on deposit in a non-interest-bearing transaction account that is subject to FDIC deposit insurance limits. For the quarters ended June 30, 2018 and 2017, 100% of the Company's revenue related to six and seven customers, respectively. For the six months ended June 30, 2018 and 2017, 100% of the Company's revenue related to six and eight customers, respectively. At June 30, 2018 and December 31, 2017, 100% of the Company's accounts receivable related to five and six customers, respectively.

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*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 Adopted 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.

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 have adopted this standard on January 1, 2018, and have determined that the standard did not have a material impact on the company's financial statements.

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.

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The Company early adopted ASU 2017-11 and changed its method of accounting for certain warrants that were initially recorded as liabilities during the year ended December 31, 2014 on a full retrospective basis. Since the warrants were issued in conjunction with the issuance of certain convertible notes payable. The following table provide a reconciliation of warrant liability, additional paid-in capital and accumulated deficit on the consolidated balance sheets as of June 30, 2017:

	<b>Consolidated Balance Sheet</b>		
	<b>Warrant Liability</b>	<b>Additional paid in capital</b>	<b>Accumulated deficit</b>
Balance, June 30, 2017 (Prior to adoption of ASU 2017-11)	\$ 219,000	\$ 51,909,207	\$ (55,657,032)
Reverse beginning balance as of January 1, 2017	(1,313,000)	(9,806,844)	11,119,844
Change in fair value of warrant liability	863,023	-	-
Stock issued upon cashless warrant exercise	230,977	-	-
Balance, June 30, 2017 (After adoption of ASU 2017-11)	-	\$ 42,102,363	\$ (44,537,188)

The following table provide a reconciliation of change in fair value of warrant liability and net loss on the consolidated statement of operations for the six months ended June 30, 2017:

	<b>Consolidated Statement Of Operations</b>	
	<b>Change in value of warrant liability</b>	<b>Net loss</b>
Balance, June 30, 2017 (Prior to adoption of ASU 2017-11)	\$ 863,023	\$ (773,813)
Change in fair value of warrant liability	(863,023)	(863,023)
	-	\$ (1,636,836)

The Company's consolidated statement of cash flows for the year ended June 30, 2017 was also impacted by the adoption of ASU 2017-11, including increases in net loss of \$863,023 and the reduction of loss on the change in value of warrant liability by the same amount.





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*Recently Issued Accounting Standards*

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.

***Note 3 – Going Concern***

The accompanying consolidated financial statements as of June 30, 2018 have been prepared assuming the Company will continue as a going concern. The Company has experienced a net loss, and has an accumulated deficit of approximately \$50,279,000. The Company has convertible notes maturing during 2018 of \$990,000, and current principal payments due in 2018 on outstanding promissory notes of \$1,625,000. These principal payments raise doubt about the Company's ability to continue as a going concern. Although we anticipate continued significant revenues for products to be used in MATS compliance activities, no assurances can be given that the Company can obtain sufficient working capital through these activities and additional financing activities to meet its debt obligations. Therefore, success in our debt refinancing efforts or negotiations with our note holders is critical. We are currently negotiating with outside sources of additional debt financing in order to fund our obligations however no assurances can be given that the Company can maintain sufficient working capital through these efforts or that the continued implementation of its business plan will generate sufficient revenues in the future to sustain ongoing operations.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

***Note 4 - Inventory***

Inventory at June 30, 2018 and December 31, 2017 are as follows:

	<b>December</b>
<b>June 30,</b>	<b>31,</b>

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	<b>2018</b>	<b>2017</b>
Raw Materials	\$ 121,952	\$ 154,952
Finished Goods	289,165	419,032
Work In Process	85,595	85,595
Total Inventory	\$ 496,712	\$ 659,579

Table of Contents**Note 5 - Property and Equipment, Net**

Property and equipment at June 30, 2018 and December 31, 2017 are as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Equipment & Installation	\$ 1,965,659	\$ 1,965,659
Trucking equipment	1,010,961	1,010,961
Computer equipment and software	117,212	117,212
Office equipment	27,155	27,155
Total equipment	3,120,987	3,120,987
Less: accumulated depreciation	(2,295,799)	(2,067,786)
Construction in process	1,807,707	1,675,792
Property and equipment, net	\$ 2,632,895	\$ 2,728,993

The Company uses the straight-line method of depreciation over 2 to 5 years. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$227,968 and \$366,817, respectively. Depreciation expense for the quarters ended June 30, 2018 and 2017 was \$63,690 and \$187,375, respectively. For the six months ended June 30, 2018 and 2017, depreciation expense recorded as cost of sales were \$211,371 and \$349,447, respectively. For the six months ended June 30, 2018 and 2017, depreciation expense recorded as sales, general and administrative expenses were \$16,643 and \$17,370, respectively.

**Note 6 – Intellectual Property**

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 sublicensees. 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. Running EERCF royalties were eliminated as of December 31, 2017.

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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. 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 for the six month period ended June 30, 2018 or the year ended December 31, 2017, respectively.

License and patent costs capitalized as of June 30, 2018 and December 31, 2017 are as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Patents	\$ 3,068,995	\$ 3,068,995
Less: Accumulated Amortization	(234,733)	(134,133)
License, Net	\$ 2,834,262	\$ 2,934,862

The Company is currently amortizing its patents over their estimated useful life of 15 years. Amortization expense for the six months ended June 30, 2018 and 2017 was \$100,602 and \$33,534, respectively. Amortization expense for the quarters ended June 30, 2018 and 2017 was \$50,300 and \$35,003, respectively. Estimated annual amortization for each of the next five years is approximately \$201,200.

Table of Contents**Note 7 – Notes Payable**

The Company has the following notes payable outstanding as of June 30, 2018 and December 31, 2017:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Secured convertible promissory notes which mature on September 1, 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.	\$ 990,000	\$ 1,550,000
Secured promissory note which matures on September 1, 2018 and bears interest at 15% per annum.	271,686	1,146,686
Unsecured promissory note which matures on December 15, 2020, and bears interest at LIBOR + 500 per annum.	13,000,000	13,000,000
Unsecured convertible promissory notes which mature on June 15, 2023, bear interest at 12% 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.	\$ 560,000	\$ -
<b>Total convertible notes payable before discount</b>	<b>14,821,686</b>	<b>15,696,686</b>
Less discounts	(1,516,829)	(1,841,867)
Less debt issuance costs	(83,722)	(160,041)
<b>Total notes payable</b>	<b>13,221,135</b>	<b>13,694,778</b>
Less current portion	4,093,470	3,961,417
<b>Notes payable, net of current portion</b>	<b>\$ 9,127,665</b>	<b>\$ 9,733,361</b>

As of June 30, 2018, scheduled principal payments due on convertible notes payable are as follows:

<b>Twelve months ended June 30,</b>	
2019	\$ 4,093,470
2020	3,000,000
2021	7,168,216
2022	-
2023	560,000
	<b>\$ 14,821,686</b>

From July 30, 2013 through December 24, 2013, the Company sold convertible notes (the “2013 Notes”) and warrants to unaffiliated accredited investors totaling \$1,902,500. The 2013 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 2013 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(a)(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the six months ended June 30, 2018 and 2017, was \$77,500 and \$78,125, 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 six months ended June 30, 2018 and 2017 on this discount was \$75,646 and \$75,606, respectively. As of June 30, 2018 and December 31, 2017, total principal of \$990,000 and \$1,550,000 was outstanding on these notes.



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On June 15, 2018, the Company issued unsecured convertible notes and warrants to certain holders of the 2013 Notes totaling \$560,000 in exchange for their secured 2013 Notes (see description below of the private placement offering commenced during the second quarter of 2018). The new unsecured notes have a term of five years, bear interest at 12% 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 exchanged, the investor received a warrant to purchase one share of common stock of the Issuer at an exercise price of \$0.70 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 issued in reliance upon the exemption provided by Section 4(a)(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act as well as under Section 3(a)(9) under the Securities Act. Loss on this debt exchange was \$44,036. Interest expense for the six months ended June 30, 2018 and 2017, was \$3,040 and \$0, respectively. A discount on the notes payable of \$45,464 was recorded based on the value of the fair value of the note and warrants exchanged. Amortized interest expense for the six months ended June 30, 2018 and 2017 on this discount was \$746 and \$0, respectively. As of June 30, 2018 and December 31, 2017, total principal of \$560,000 and \$0 was outstanding on these notes.

During the second quarter of 2018, the Company commenced and continues to make a private placement offering exempt from registration under the Securities Act, of up to \$3,500,000 12.0% unsecured convertible promissory notes and warrants, to certain (i) accredited investors and (ii) holders of the 2013 Notes in the aggregate principal amount of \$1,550,000 which holders have been given the opportunity to exchange their current notes for the new unsecured notes and warrants. The information provided herein does not constitute an offer to sell or a solicitation of an offer to buy any of the securities described herein. Such securities have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration with the SEC or an applicable exemption from such registration requirements.

New AC Midwest Secured Note

On November 29, 2016 the Company closed on the transactions contemplated by a new Restated Financing Agreement entered into with AC Midwest on November 1, 2016 whereby at closing AC Midwest, which held various warrants to acquire shares of the Company's common stock, exercised on a cashless basis a portion of its warrants for 10,000,000 shares of the Company's common stock and exchanged previous AC Midwest Notes, together with all accrued and unpaid interest thereon, and the remaining unexercised portion of its warrants, for (i) a new secured note in the principal amount of \$9,646,686 (the "New AC Midwest Secured Note"), and (ii) a subordinated unsecured note in the principal amount of \$13,000,000 (the "AC Midwest Subordinated Note"). The New AC Midwest Secured Note, which will mature on December 15, 2018 and is guaranteed by MES, is nonconvertible and bears interest at a rate of 12.0% per annum, payable quarterly in arrears on or before the last day of each fiscal quarter beginning December 31, 2016. Commencing on June 15, 2017 and continuing on each September 15, December 15, March 15 and June 15 thereafter, the Company shall pay principal on the New AC Midwest Secured Note in equal installments of (i) \$500,000 per quarter for the 2017 calendar year, (ii) \$625,000 on March 15, 2018, (iii) with a final payment of all outstanding principal together with such other amounts as shall then be due and owing from the Company to AC Midwest under the New AC Midwest Secured Note on the maturity date.



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On June 14, 2018, the Company entered into Amendment No. 1 (“Amendment No. 1”) to the Amended and Restated Financing Agreement with AC Midwest Energy LLC which was entered into on November 1, 2016. Pursuant to Amendment No. 1, the parties agreed that the remaining principal balance (\$521,686.10) due under the Secured Note referenced therein (which prior to Amendment No. 1 was due on June 15, 2018) would be paid as follows: (a) \$250,000 on or prior to June 15, 2018 (which was paid on that date), and (ii) the balance thereof on or prior to September 1, 2018. In addition, the parties agreed that following June 15, 2018, the Secured Note shall bear interest on the unpaid principal balance thereof at a rate equal to the current interest rate provided therein plus 3.0% per annum until the remaining principal balance is paid in full.

The New AC Midwest Secured Note is secured, like the previous AC Midwest Notes which were exchanged and cancelled, by all of the assets of the Company and MES. Interest expense for the six months ended June 30, 2017 was \$157,017. As of June 30, 2018 and December 31, 2017, total principal of \$271,686 and \$1,146,686 was outstanding on this note.

AC Midwest Subordinated Note

The AC Midwest Subordinated Note, which will mature on December 15, 2020 and is guaranteed by MES, is nonconvertible and bears interest equal to the three-month LIBOR rate plus 5.0% per annum, payable quarterly on or before the last day of each fiscal quarter beginning December 31, 2016. The interest rate shall be subject to adjustment each quarter based on the then current LIBOR rate. Commencing on June 15, 2017 and continuing on each September 15, December 15, March 15 and June 15 thereafter, the Company shall pay principal on the AC Midwest Subordinated Note in equal installments of (i) \$500,000 per quarter for the 2017 calendar year, (ii) \$625,000 per quarter for the 2018 calendar year, and (iii) thereafter \$750,000 per quarter, with a final payment of all outstanding principal together with such other amounts as shall then be due and owing from the Company to AC Midwest on the maturity date. Notwithstanding the foregoing, until the New AC Midwest Secured Note and a letter of credit note issued by the Company to AC Midwest on January 28, 2016 in the amount of \$2,000,000 (the “LC Note”) are paid in full, AC Midwest will not be entitled to receive any payment on account of the AC Midwest Subordinated Note (other than regularly scheduled interest payments). Interest expense on the AC Midwest Subordinated Note for the six months ended June 30, 2018 was \$455,114. As of June 30, 2018 and December 31, 2017, total principal of \$13,000,000 and \$13,000,000, respectively, was outstanding on this note. The Company determined that the rate of interest on the AC Midwest Subordinated Note was a below market rate of interest and determined that a discount of \$2,400,000 should be recorded. This discount is based on an applicable market rate for unsecured debt for the Company of 15% and will be amortized as interest expense over the life of the loan. Amortized discount recorded as interest expense for the six months ended June 30, 2018 was \$294,110. The LC Note was issued to evidence any indebtedness owed by the Company arising from any draws made under a letter of credit arranged for the Company by AC Midwest with its bank. Although no amounts have yet to be drawn on the letter of credit, the letter of credit remains available.



Table of Contents**Note 8 – Equipment Notes Payable**

The Company has the following equipment notes payable outstanding as of June 30, 2018 and December 31, 2017:

	<b>Current Balance</b>	<b>2017</b>
On September 30, 2015, the Company entered into a retail installment purchase contract in the amount of \$57,007, secured by a 2016 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.22% and the Company shall make 60 monthly payments of \$1,056 beginning October 30, 2015.	\$ 27,143	\$ 32,833
On December 15, 2015, the Company entered into a retail installment purchase contract in the amount of \$56,711, secured by a 2016 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.22% and the Company shall make 60 monthly payments of \$1,050 beginning January 15, 2016.	29,847	35,449
On March 8, 2016, the Company entered into a retail installment purchase contract in the amount of \$46,492, secured by a 2016 Dodge Ram 2500 purchased on that date. This installment loan bears interest at a fixed rate of 5.62% and the Company shall make 72 monthly payments of \$764 beginning April 8, 2016.	30,811	34,468
On May 26, 2016, the Company entered into a retail installment purchase contract in the amount of \$56,936, secured by a 2016 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.89% and the Company shall make 60 monthly payments of \$1,072 beginning June 26, 2016.	34,887	40,385
On January 23, 2017, the Company entered into a retail installment purchase contract in the amount of \$58,926, secured by a 2017 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.74% and the Company shall make 60 monthly payments of \$1,105 beginning February 23, 2017.	43,619	49,138
On February 29, 2017, the Company entered into a retail installment purchase contract in the amount of \$42,275, secured by a 2017 Dodge Ram 2500 purchased on that date. This installment loan bears interest at a fixed rate of 4.74% and the Company shall make 60 monthly payments of \$793 beginning March 29, 2017.	32,624	36,554
<b>Total equipment notes payable</b>	<b>198,931</b>	<b>228,827</b>

Less Current Portion	62,623	61,177
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Equipment notes payable, net of current portion	\$ 136,308	\$ 167,650
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As of June 30, 2018, scheduled principal payments due on equipment notes payable are as follows:

**For the year ended June 30,**

2019	\$ 62,623
2020	64,923
2021	50,967
2022	20,418
	\$ 198,931

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**Note 9 – Commitments and Contingencies**

*Property Leases*

On June 1, 2011, the Company entered into a lease for warehouse space in Centralia, Washington, commencing August 1, 2011. The lease ended on June 30, 2017.

On January 27, 2015, the Company entered into a 13-month lease for office space in Lewis Center, Ohio, commencing February 1, 2015. The lease provides for the option to extend the lease for up to five additional years. Rent was abated for the first month of the lease. To date, the lease has been extended three times through February 2019. Monthly rent is \$1,463 through February 2019.

On July 1, 2015, the Company entered into a five year lease for warehouse space in Corsicana, Texas. Rent is \$3,750 monthly throughout the term of the lease and is waived from July 1, 2016 through September 30, 2016. The Company is also responsible for the pro rata share of the projected monthly expenses for the property taxes. The current pro rata share is \$882.

On September 1, 2015, the Company entered into a three year lease for office space in Grand Forks, North Dakota. Rent is \$3,500 monthly for the first year and decreases to \$2,500 throughout the remainder of the term of the lease.

Future minimum lease payments under these non-cancelable leases are approximately as follows:

<b>For the Year Ended June 30</b>	
2019	\$ 61,700
2020	45,000
	\$ 106,700

Rent expense was approximately \$52,000 and \$55,000 for the six months ended June 30, 2018 and 2017, respectively.

*Fixed Price Contract*

The Company's multi-year contracts with its commercial customers contain fixed prices for product. These contracts expire through 2019 and expose the Company to the potential risks associated with rising material costs during that same period.

*Legal proceedings*

In December 2017, one of our customers commenced an arbitration against us before the American Arbitration Association alleging that we breached certain price guarantees provided in a supply agreement and maximum contract year billings. On April 12, 2018, the parties executed an agreement settling this matter, which agreement includes certain revised billing terms for product which is sold to and purchased by such customer between April 16, 2018 and April 15, 2019. We do not expect the settlement to have a material adverse effect on our business, financial condition or results of operations.



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**Note 10 – Equity**

The Company was established with two classes of stock, common stock – 150,000,000 shares authorized at a par value of \$0.001 and preferred stock – 2,000,000 shares authorized at a par value of \$0.001.

*Common Stock*

Pursuant to the terms of a consulting agreement entered into on July 31, 2017, effective as of July 1, 2017, the Company issued 1,000,000 shares of common stock to Dathna Partners, LLC which shall be earned in the following manner: 250,000 shares will be earned by the consultant and deemed immediately vested on the effective date, and the remaining 750,000 shares will be earned by the consultant and deemed vested, in 12 equal monthly installments of 62,500 shares beginning on July 31, 2017 and monthly thereafter until June 30, 2018. The shares issued were valued at \$0.37 per share, representing the value as of the issuance date. Compensation expense for the six months ended June 30, 2018 and 2017 on the issued shares was \$138,750 and \$138,750, respectively.

**Note 11 - Stock Based Compensation**

On January 10, 2014, the Board of Directors of the Company approved and adopted, subject to stockholder approval, which was obtained at the annual stockholders meeting held on November 16, 2014, the Midwest Energy Emissions Corp. 2014 Equity Incentive Plan (the “Equity Plan”). The number of shares of the Company’s Common Stock that may be issued under the Equity Plan is 2,500,000 shares, subject to the adjustment for stock dividends, stock splits, recapitalizations and similar corporate events. Eligible participants under the Equity Plan shall include officers, employees of or consultants to the Company or any of its subsidiaries, or any person to whom an offer of employment is extended, or any person who is a non-employee director of the Company. On October 9, 2014, the Board of Directors approved and adopted the First Amendment to the plan, subject to stockholder approval, which was obtained at the annual stockholders meeting held on November 18, 2014, which increased the number of shares issuable under the plan to 7,500,000.

On February 9, 2017, the Board of Directors of the Company adopted the Midwest Energy Emissions Corp. 2017 Equity Incentive Plan (the “2017 Equity Plan”), which was approved by stockholders at the annual stockholders meeting held on June 6, 2017. The 2017 Equity Plan provides for the grant of incentive stock options (subject to applicable stockholder approval), nonqualified stock options, restricted stock awards, stock appreciation rights, restricted share units, performance awards and other type of awards described therein. Eligible recipients under the 2017 Equity Plan include the Company’s officers, directors, employees and consultants of the Company or one of its subsidiaries. The maximum number of shares of common stock that may be issued under the 2017 Equity Plan is 8,000,000. The 2017

Equity Plan will be administered by the Board or one or more committees appointed by the Board. The 2017 Equity Plan replaces the 2014 Equity Plan which was terminated by the Board of Directors on April 28, 2017.

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, which addresses the accounting for employee stock options which requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the consolidated financial statements over the vesting period based on the estimated fair value of the awards.

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A summary of stock option activity for the quarter ended June 30, 2018 is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Aggregate Intrinsic Value</b>
December 31, 2016	7,550,457	1.29	3.2	-
Grants	1,565,000	0.98	4.8	-
Expirations	(527,273)	1.02	-	-
Cancellations	(125,000)	-	-	-
December 31, 2017	8,463,184	1.26	3.0	-
Grants	842,709	0.27	4.7	-
Expirations	(625,000)	0.70	-	-
June 30, 2018	8,680,893	1.21	2.3	-
Options exercisable at:				
December 31, 2017	7,688,184	1.27	3.0	
June 30, 2018	8,680,893	1.21	2.3	

The Company utilized the Black-Scholes options pricing model. The significant assumptions utilized for the Black Scholes calculations consist of an expected life of equal to the expiration term of the option, historical volatility of 112.2%, and a risk free interest rate of 3%.

On February 5, 2018, the Company issued nonqualified stock options to acquire 250,000 shares of the Company's common stock to Rick MacPherson, nonqualified stock options to acquire 150,000 shares of the Company's common stock to Christopher Greenberg and nonqualified stock options to acquire 108,000 shares of the Company's common stock to Allan Grantham, each a director of the Company, under the Company's 2014 Equity Plan. The options granted are exercisable at \$0.28 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$100,887 in accordance with FASB ASC Topic 718.

On February 5, 2018, the Company released the restriction on stock options to acquire 750,000 shares of the Company's common stock issued to Rick MacPherson on August 31, 2016 making them now fully vested and exercisable. Based on a Black-Scholes valuation model, these options were valued at \$76,543 in accordance with FASB ASC Topic 718.

On February 23, 2018, Company issued nonqualified stock options to acquire 50,000 shares each of the Company's common stock to John Pavlish, Richard Gross and James Trettel, nonqualified stock options to acquire 25,000 shares each of the Company's common stock to Nicholas Lentz and Johnny Battle and nonqualified stock options to acquire 15,000 shares each of the Company's common stock to Gabriel Brooks, Ethan Gaius and Terry Johnson under the Company's 2017 Equity Plan. The options granted are exercisable at \$0.28 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$51,129 in accordance with FASB ASC Topic 718.

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On June 8, 2018, the Company granted nonqualified stock options to acquire an aggregate of 27,819 shares of the Company's common stock under the Company's 2017 Equity Plan to certain executive officers, employees and others. The options granted are exercisable at \$0.29 per share, which is greater than the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan and represents the fair market value on May 31, 2018. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$4,882 in accordance with FASB ASC Topic 718.

On June 30, 2018, the Company granted nonqualified stock options to acquire an aggregate of 61,890 shares of the Company's common stock under the Company's 2017 Equity Plan to certain executive officers, employees and others. The options granted are exercisable at \$0.21 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$9,823 in accordance with FASB ASC Topic 718.

**Note 12 - Warrants**

Unless sold and issued warrants are subject to the provisions of FASB ASC 815-10, the Company utilized a Black-Scholes options pricing model to value the warrants sold and issued. This model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until the warrants are exercised. When calculating the value of warrants issued, the Company uses a volatility factor of 100%, a risk free interest rate and the life of the warrant for the exercise period. When sold and issued warrants were valued in accordance with FASB ASC 815-10, the fair value was determined using a Monte Carlo Simulation Model.

On June 15, 2018, the Company issued unsecured convertible notes and warrants to unaffiliated accredited investors totaling \$560,000 in exchange for outstanding secured convertible notes payable. The notes are convertible into one share of common stock, with the initial conversion ratio equal to \$0.50 per share. The investors received a total of 560,000 warrants to purchase one shares of common stock with an exercise price of \$0.70 per share. These securities were sold in reliance upon the exemption provided by Section 4(a)(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act, as well as under Section 3(a)(9) under the Securities Act. Using a Black-Sholes Valuation model these warrants had a value of \$89,450 which was recorded as a discount on the notes payable and will be amortized over the life of the associated notes payable.

The following table summarizes information about common stock warrants outstanding at June 30, 2018:

**Outstanding**

**Exercisable**

Exercise Price	Number Outstanding	Weighted Average	Weighted Average	Number Exercisable	Weighted Average
		Remaining Contractual Life (years)			
\$ 1.25	13,950	0.50	1.25	13,950	1.25
0.87	1,303,300	1.11	0.87	1,303,300	0.87
0.75	683,415	0.55	0.65	683,415	0.65
0.65	515,000	0.58	0.65	515,000	0.50
0.50	560,000	4.96	0.50	560,000	0.50
0.45	150,000	2.67	0.45	150,000	0.45
0.35	4,572,098*	1.19	0.35	4,572,098	0.35
\$ 0.50 - \$3.30	7,797,763	1.35		7,797,763	

Note \* 916,720 warrants exercisable at \$0.35 contain dilution protections that increase the number of shares purchasable at exercise upon the issuance of securities at a price below the current exercise price.

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**Note 13 – Tax**

For the six months ended June 30, 2018, the Company had a net operating loss carryforward offset by a valuation allowance and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At June 30, 2018, the Company's net operating loss carryforward was approximately \$21.9 million. Our deferred tax asset primarily related to accrued compensation and net operating losses. A 100% valuation allowance has been established due to the uncertainty of the utilization of these assets in future periods. As a result, the deferred tax asset was reduced to zero and no income tax benefit was recorded. The net operating loss carryforward, if not utilized, will begin to expire in 2031.

Section 382 of the Internal Code allows post-change corporations to use pre-change net operating losses, but limit the amount of losses that may be used annually to a percentage of the entity value of the corporation at the date of the ownership change. The applicable percentage is the federal long-term tax-exempt rate for the month during which the change in ownership occurs.

**Note 14 – Subsequent Events**

On July 6, 2018, the Company granted nonqualified stock options to acquire an aggregate of 22,562 shares of the Company's common stock under the Company's 2017 Equity Plan to the Company's CEO and other Board members. The options granted are exercisable at \$0.29 per share, which is greater than the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan and represents the fair market value on May 31, 2018. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$2,997 in accordance with FASB ASC Topic 718.

Also on July 6, 2018, the Company granted nonqualified stock options to acquire an aggregate of 30,791 shares of the Company's common stock under the Company's 2017 Equity Plan to the Company's CEO and other Board members. The options granted are exercisable at \$0.21 per share, which is greater than the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan and represents the fair market value on June 30, 2018. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$4,347 in accordance with FASB ASC Topic 718.

On July 31, 2018, the Company granted nonqualified stock options to acquire an aggregate of 92,681 shares of the Company's common stock under the Company's 2017 Equity Plan to the Company's executive officers, Board members, certain employees and others. The options granted are exercisable at \$0.17 per share, representing the fair market value of the common stock on the date of grant as determined under the 2017 Equity Plan. The options are

fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Scholes valuation model, these options were valued at \$11,093 in accordance with FASB ASC Topic 718.



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**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Background**

Midwest Energy Emissions Corp. (the “Company”, “we”, “us” and “our”) develops and deploys patented, proprietary technologies to remove mercury emissions from coal-fired power plants. The U.S. EPA MATS (Mercury and Air Toxics Standards) rule requires that all coal and oil-fired power plants in the U.S., larger than 25MWs, must limit mercury in its emissions to below certain specified levels, according to the type of coal burned. Power plants were required to begin complying with MATS on April 16, 2015, unless they were granted a one-year extension to begin to comply. MATS, along with many state and provincial regulations, form the basis for mercury emission capture at coal fired plants across North America. Under the MATS regulation, Electric Generating Units (“EGUs”) are required to remove about 90% of the mercury from their emissions. We believe that we continue to meet the requirements of the industry as a whole and our technologies have been shown to achieve mercury removal levels compliant with all state, provincial and federal regulations at a lower cost and with less plant impact than our competition.

As is typical in this market, we are paid by the EGU based on how much of our material is injected to achieve the needed level of mercury removal. Our current clients pay us as material is delivered to their facility. Clients will use our material whenever their EGUs operate, although EGUs are not always in operation. EGUs typically may not be in operation due to maintenance reasons or when the price of power in the market is less than their cost to produce power. Thus, our revenues from EGU clients will not typically be a consistent stream but will fluctuate, especially seasonally as the market demand for power fluctuates.

The MATS regulation has been subject to legal challenge, and in June 2015, the U.S. Supreme Court held that the EPA unreasonably failed to consider costs in determining whether it is “appropriate and necessary” to regulate hazardous air pollutants, including mercury, from power plants. The Court remanded the case back to the U.S. Court of Appeals for the District of Columbia Circuit for further proceedings, but left the rule in place. In December 2015, the D.C. Circuit remanded the rule back to the EPA for further consideration while allowing MATS to remain in effect pending the EPA’s finding; the Supreme Court later denied a petition challenging the lower court’s decision to remand without vacating. On April 14, 2016, EPA issued a final supplemental finding reaffirming the MATS rule on the ground that it is supported by the cost analysis the Supreme Court required. That supplemental finding is under review by the D.C. Circuit, and the Company is unable to predict with certainty the outcome of these proceedings. On April 18, 2017, EPA asked the court to place that litigation in abeyance, stating that the Agency is reviewing the supplemental finding to determine whether it should be reconsidered in whole or in part. The court granted EPA’s abeyance request on April 27, 2017, and ordered EPA to file 90-day status reports starting July 26, 2017. The Company is unable to predict how EPA will proceed, but any changes to the MATS rule could have a negative impact on our business.

We remain focused on positioning the Company for short and long-term growth. In the six months ended June 30, 2018, we focused on execution at our customer sites and on continual operation improvement. We continue to make refinements to all of our key products, as we continue to focus on the customer and its operations. In 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. This acquisition positions the Company to continue its growth across North America, including the licensing of our technologies in the United States and around the world.

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**Results of Operations**

The company saw a decrease in sales in the first half of 2018 as compared to first half of 2017. The decrease in product sales is primarily due to the loss of customer EGU's that were shut down as a result of competitive disadvantages to other EGU's, optimization efforts with our customers, as well as lower capacity factors seen at some customer sites resulting in decreased product needed to keep our customers in MATS compliance.

**Revenues**

*Sales* - We generated revenues of approximately \$2,452,000 and \$7,931,000 for the quarters ended June 30, 2018 and 2017, respectively and \$4,573,000 and \$13,359,000 for the six months ended June 30, 2018 and 2017, respectively. Total sorbent product sales for the three months ended June 30, 2018 and 2017 were \$2,415,000 and \$7,113,000, respectively. Total sorbent product sales for the six months ended June 30, 2018 and 2017 were \$4,475,000 and \$12,397,000, respectively. This decrease is primarily due to the factors described above.

Equipment sales for the three months ended June 30, 2018 and 2017 were \$0 and \$777,000, respectively. Equipment sales for the six months ended June 30, 2018 and 2017 were \$9,000 and \$784,000, respectively. In 2017, equipment sales were primarily related to one front end injection system.

Other revenues for the three months ended June 30, 2018 and 2017 were \$37,000 and \$42,000, respectively. Other revenues for the six months ended June 30, 2018 and 2017 were \$89,000 and \$178,000, respectively. This decrease is primarily associated with decreased demonstration revenues in the six months ended June 30, 2018 from the same period in the prior year.

**Cost and Expenses**

*Costs and expenses* were \$3,592,000 and \$7,309,000 during the three months ended June 30, 2018 and 2017, respectively, and were \$7,082,000 and \$13,789,000 for the six months ended June 30, 2018 and 2017, respectively. The decrease in costs and expenses from the prior year is primarily attributable to a decrease in costs of sales in the current year. The decrease in cost of sales is primarily associated with the significant decrease in revenues over the same period 2017.

*Cost of sales* during the three months ended June 30, 2018 and 2017 were \$1,883,000 and \$4,996,000, respectively, and were \$3,591,000 and \$8,782,000 for the six months ended June 30, 2018 and 2017, respectively. The decrease in cost is primarily attributable to the significant decrease in product sales in 2018.

*Selling, general and administrative expenses* were \$1,710,000 and \$2,313,000 for the quarters ended June 30, 2018 and 2017, respectively, and were \$3,491,000 and \$5,007,000 for the six months ended June 30, 2018 and 2017, respectively. The decrease in selling, general and administrative expenses is primarily attributed to a decrease in stock based compensation and sales commissions over the same quarter 2017.

### **Other Expenses**

Interest expense related to the financing of capital was \$516,000 and \$545,000 during the quarters ended June 30, 2018 and 2017, respectively, and were \$1,029,000 and \$1,085,000 for the six months ended June 30, 2018 and 2017, respectively.

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**Net (Loss) Income**

For the quarter ended June 30, 2018 we had net loss of approximately \$1,701,000. For the quarter ended June 30, 2017 we had net income of approximately \$16,000. For the six months ended June 30, 2018 and 2017 we had a net loss of \$3,612,000 and \$1,637,000, respectively. The change in net loss is primarily due to the loss of sales.

Operating loss was approximately \$1,141,000 for the quarter ended June 30, 2018. Operating income was approximately \$622,000 for the quarter ended June 30, 2017. Operating loss was approximately \$2,509,000 and \$431,000 for the six months ended June 30, 2018 and 2017, respectively.

**Taxes**

As of June 30, 2018, our deferred tax assets are primarily related to accrued compensation and net operating losses. A 100% valuation allowance has been established due to the uncertainty of the utilization of these assets in future periods. As a result, the deferred tax asset was reduced to zero and no income tax benefit was recorded. The net operating loss carryforward will begin to expire in 2031.

**Liquidity and Capital Resources**

Our principal source of liquidity is cash generated from operating activities. As of June 30, 2018, our cash and cash equivalents totaled \$494,000 versus \$2,418,000 at December 31, 2017. The decrease in cash is primarily due to note principle payments and focusing on accounts payable.

*Total assets* were \$7,558,000 at June 30, 2018 versus \$12,056,000 at December 31, 2017. The change in total assets is primarily attributable to the decrease in cash and cash equivalents and accounts receivable.

*Total liabilities* were \$15,121,000 at June 30, 2018 versus \$16,481,000 at December 31, 2017. The decrease in total liabilities is primarily due to the decrease in notes payable and deferred revenue.

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*Operating activities* used \$890,000 versus \$3,311,000 of cash during the six months ended June 30, 2018 and 2017 respectively. The change in cash used for operating activities is primarily attributable to the decrease in accounts payable offset by a decrease in accounts receivable.

*Investing activities* used \$131,000 and \$3,086,000 during the six months ended June 30, 2018 and 2017, respectively. In 2017, the Company paid \$2,500,000 for the acquisition of the EERCF Patent Rights.

*Financing activities* used \$904,000 during the six months ended June 30, 2018 versus \$526,000 during the six months ended June 30, 2017. Financing activities during the six months ended June 30, 2018 was due to the repayment of principal of convertible promissory notes.

### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

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**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial conditions and results of operation are based upon the accompanying consolidated financial statements which have been prepared in accordance with the generally accepted accounting principles in the U.S. The preparation of the consolidated financial statements requires that we make estimates and assumptions that affect the amounts reported in assets, liabilities, revenues and expenses. Management evaluates on an on-going basis our estimates with respect to the valuation allowances for accounts receivable, income taxes, accrued expenses and equity instrument valuation, for example. We base these estimates on various assumptions and experience that we believe to be reasonable. The following critical accounting policies are those that are important to the presentation of our financial condition and results of operations. These policies require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

The following critical accounting policies affect our more significant estimates used in the preparation of our consolidated financial statements. In particular, our most critical accounting policies relate to the recognition of revenue, and the valuation of our stock-based compensation.

**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.

**Revenue Recognition**

The Company records revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC 606"). The Company's revenues are primarily comprised of sales of products. Revenue is recognized when the Company satisfies its performance obligation under the contract by transferring the promised product to its customer that obtains

control of the product. A performance obligation is a promise in a contract to transfer a distinct product to a customer. Most of the Company's contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Sales and other taxes are excluded from revenues. Invoiced shipping and handling costs are included in revenue.

The Company's revenue is primarily from products transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product, which is generally when product title passes to the customer upon shipment.

### **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.



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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 June 30, 2018 and December 31, 2017. 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.

**Stock-Based Compensation**

We have adopted the provisions of *Share-Based Payments*, which requires that share-based payments be reflected as an expense based upon the grant-date fair value of those grants. Accordingly, the fair value of each option grant, non-vested stock award and shares issued under our employee stock purchase plan, were estimated on the date of grant. We estimate the fair value of these grants using the Black-Scholes model which requires us to make certain estimates in the assumptions used in this model, including the expected term the award will be held, the volatility of the underlying common stock, the discount rate, dividends and the forfeiture rate. The expected term represents the period of time that grants and awards are expected to be outstanding. Expected volatilities were based on historical volatility of our stock. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option. Dividends were assumed to be zero. Forfeiture estimates are based on historical data. These inputs are based on our assumptions, which we believe to be reasonable but that include complex and subjective variables. Other reasonable assumptions could result in different fair values for our stock-based awards. Stock-based compensation expense, as determined using the Black-Scholes option-pricing model, is recognized on a straight-line basis over the service period, net of estimated forfeitures. To the extent that actual results or revised estimates differ from the estimates used, those amounts will be recorded as an adjustment in the period that estimates are revised.

**Non-GAAP Financial Measures**

*Adjusted EBITDA*

To supplement our consolidated financial statements presented in accordance with GAAP and to provide investors with additional information regarding our financial results, we consider and are including herein Adjusted EBITDA, a Non-GAAP financial measure. We view Adjusted EBITDA as an operating performance measure and, as such, we believe that the GAAP financial measure most directly comparable to it is net income (loss). We define Adjusted EBITDA as net income adjusted for income taxes, depreciation, amortization, stock based compensation, and other

non-cash income and expenses. We believe that Adjusted EBITDA provides us an important measure of operating performance because it allows management, investors, debtholders and others to evaluate and compare ongoing operating results from period to period by removing the impact of our asset base, any asset disposals or impairments, stock based compensation and other non-cash income and expense items associated with our reliance on issuing equity-linked debt securities to fund our working capital.

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Our use of Adjusted EBITDA has limitations as an analytical tool, and this measure should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. Additionally, our measure of Adjusted EBITDA may differ from other companies' measure of Adjusted EBITDA. When evaluating our performance, Adjusted EBITDA should be considered with other financial performance measures, including various cash flow metrics, net income and other GAAP results. In the future, we may disclose different non-GAAP financial measures in order to help our investors and others more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. The following table shows our reconciliation of Net Income to Adjusted EBITDA for the quarters and six months ended June 30, 2018 and 2017, respectively:

	<b>Quarter Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		(In thousands)	
Net income (loss)	\$ (1,701)	\$ 16	\$ (3,612)	\$ (1,637)
Non-GAAP adjustments:				
Depreciation and amortization	149	322	398	624
Interest and letter of credit fees	516	606	1,058	1,206
Income taxes	-	6	-	6
Stock based compensation	84	282	385	1,237
Loss on debt exchange	44	-	44	-
Adjusted EBITDA	\$ (908)	\$ 1,232	\$ (1,682)	\$ 1,436

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**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**ITEM 4 - CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were not effective as a result of material weaknesses in our internal control over financial reporting. The ineffectiveness of our disclosure controls and procedures was due to the following material weaknesses in our internal control over financial reporting, which are common to many small companies: (i) lack of a sufficient complement of personnel commensurate with the Company's reporting requirements; and (ii) insufficient written documentation or training of our internal control policies and procedures which provide staff with guidance or framework for accounting and disclosing financial transactions.

Despite the existence of the material weaknesses above, we believe that the consolidated financial statements contained in this Form 10-Q fairly present our financial position, results of operations and cash flows as of and for the periods presented in all material respects.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Certain actions have been taken to address certain aspects of the material weaknesses disclosed above. We continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2018 and beyond. Due to the nature of the remediation process, the need to have sufficient

resources (cash or otherwise) to devote to such efforts, and the need to allow adequate time after implementation to evaluate and test the effectiveness of the controls, no assurance can be given as to the timing of achievement of remediation.

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**PART II – OTHER INFORMATION**

**ITEM 1 – LEGAL PROCEEDINGS**

None

**ITEM 1a – RISK FACTORS**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3 - DEFAULT UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 - OTHER INFORMATION**

None

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**ITEM – 6 EXHIBITS**

**Exhibit**

<b>Number</b>	<b>Description</b>
<u>31.1*</u>	<u>Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act</u>
<u>31.2*</u>	<u>Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act</u>
<u>32.1*</u>	<u>Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>
<u>32.2*</u>	<u>Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>
101*	The following financial information from our Quarterly Report on Form 10-Q for the six months ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Stockholders' Deficit, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements

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\* Filed herewith.



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**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.

**MIDWEST ENERGY EMISSIONS  
CORP.**

Dated: August 14, 2018

By: */s/ Richard MacPherson*  
Richard MacPherson

President and Chief Executive  
Officer

(Principal Executive Officer)

Dated: August 14, 2018

By: */s/ Richard H. Gross*  
Richard H. Gross

Chief Financial Officer

(Principal Financial Officer)