

Ameresco, Inc.  
Form 10-Q  
November 05, 2015  
Table of Contents

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-34811

Ameresco, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

111 Speen Street, Suite 410

Framingham, Massachusetts

(Address of Principal Executive Offices)

(508) 661-2200

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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 definitions 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   
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Edgar Filing: Ameresco, Inc. - Form 10-Q

Class	Shares outstanding as of November 2, 2015
Class A Common Stock, \$0.0001 par value per share	28,517,892
Class B Common Stock, \$0.0001 par value per share	18,000,000

---

AMERESCO, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015  
TABLE OF CONTENTS

	Page
<u><b>PART I - FINANCIAL INFORMATION</b></u>	
<u><b>Item 1. Condensed Consolidated Financial Statements</b></u>	
<u>Consolidated Balance Sheets at September 30, 2015 (Unaudited) and December 31, 2014</u>	<u>1</u>
<u>Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2015 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u><b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b></u>	<u>26</u>
<u><b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b></u>	<u>41</u>
<u><b>Item 4. Controls and Procedures</b></u>	<u>41</u>
<u><b>PART II - OTHER INFORMATION</b></u>	
<u><b>Item 1. Legal Proceedings</b></u>	<u>42</u>
<u><b>Item 1A. Risk Factors</b></u>	<u>42</u>
<u><b>Item 6. Exhibits</b></u>	<u>42</u>
<u>Signatures</u>	<u>43</u>
<u>Exhibit Index</u>	<u>44</u>

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## AMERESCO, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$21,256	\$23,762
Restricted cash	15,306	12,818
Accounts receivable, net	75,649	71,661
Accounts receivable retainage	20,407	15,968
Costs and estimated earnings in excess of billings	76,650	66,325
Inventory, net	12,214	8,896
Prepaid expenses and other current assets	12,939	8,666
Income tax receivable	—	3,525
Deferred income taxes	6,069	5,440
Project development costs	15,781	9,674
Total current assets	256,271	226,735
Federal ESPC receivable	103,589	79,167
Property and equipment, net	5,947	7,372
Project assets, net	239,119	217,772
Deferred financing fees, net	5,323	4,313
Goodwill	59,371	60,479
Intangible assets, net	7,983	11,238
Other assets	17,178	22,583
Total assets	\$694,781	\$629,659
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portions of long-term debt and capital lease liabilities	\$12,391	\$12,255
Accounts payable	112,384	87,787
Accrued expenses and other current liabilities	31,785	26,944
Billings in excess of cost and estimated earnings	25,492	18,291
Income taxes payable	920	812
Total current liabilities	182,972	146,089
Long-term debt and capital lease liabilities, less current portions	83,240	90,037
Federal ESPC liabilities	106,401	70,875
Deferred income taxes	4,524	7,210
Deferred grant income	8,429	8,842
Other liabilities	21,981	20,300

Commitments and contingencies (Note 5)

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

Table of Contents

## AMERESCO, INC.

## CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2015 and December 31, 2014	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 28,517,892 shares issued and outstanding at September 30, 2015, 28,351,792 shares issued and outstanding at December 31, 2014	3	3
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at September 30, 2015 and December 31, 2014		2
Additional paid-in capital	109,417	107,445
Retained earnings	183,458	181,477
Accumulated other comprehensive loss, net	(5,646	) (2,620 )
Non-controlling interest	—	(1 )
Total stockholders' equity	287,234	286,306
Total liabilities and stockholders' equity	\$694,781	\$629,659

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

Table of Contents

## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues	\$ 189,142	\$ 168,891	\$ 457,064	\$ 412,180
Cost of revenues	152,849	133,867	370,232	331,666
Gross profit	36,293	35,024	86,832	80,514
Selling, general and administrative expenses	26,623	25,800	76,506	74,293
Operating income	9,670	9,224	10,326	6,221
Other expenses, net	2,149	2,465	6,158	4,993
Income before provision (benefit) for income taxes	7,521	6,759	4,168	1,228
Income tax provision (benefit)	3,343	(532)	) 2,187	(501)
Net income	\$ 4,178	\$ 7,291	\$ 1,981	\$ 1,729
Net income per share attributable to common shareholders:				
Basic	\$ 0.09	\$ 0.16	\$ 0.04	\$ 0.04
Diluted	\$ 0.09	\$ 0.16	\$ 0.04	\$ 0.04
Weighted average common shares outstanding:				
Basic	46,517,638	46,315,968	46,473,375	46,098,158
Diluted	47,672,944	46,987,522	47,243,793	46,636,529

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

Table of Contents

## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended September 30,	
	2015	2014
Net income	\$4,178	\$7,291
Other comprehensive loss:		
Unrealized (loss) gain from interest rate hedge, net of tax of \$706 and \$4, respectively	(1,429)	) 372
Foreign currency translation adjustments	(1,222)	) (2,018)
Total other comprehensive loss	(2,651)	) (1,646)
Comprehensive income	\$1,527	\$5,645
	Nine Months Ended September 30,	
	2015	2014
Net income	\$1,981	\$1,729
Other comprehensive loss:		
Unrealized loss from interest rate hedge, net of tax of \$629 and \$549, respectively	(1,043)	) (1,432)
Foreign currency translation adjustments	(1,983)	) (1,937)
Total other comprehensive loss	(3,026)	) (3,369)
Comprehensive loss	\$(1,045)	) \$(1,640)

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

Table of Contents

## AMERESCO, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(in thousands, except share amounts)

(Unaudited)

	Class A Common Stock Shares	Class B Common Stock Shares	Class B Common Stock Amount	Class B Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Stockholders' Equity
Balance, December 31, 2014	28,351,792	\$ 3	18,000,000	\$ 2	\$ 107,445	\$ 181,477	\$ (2,620 )	\$ (1 )	\$ 286,306
Exercise of stock options	166,100	—	—	—	611	—	—	—	611
Stock-based compensation expense	—	—	—	—	1,478	—	—	—	1,478
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	(1,043 )	—	(1,043 )
Foreign currency translation adjustment	—	—	—	—	—	—	(1,983 )	—	(1,983 )
Repurchase of non-controlling interest	—	—	—	—	(117 )	—	—	1	(116 )
Net income	—	—	—	—	—	1,981	—	—	1,981
Balance, September 30, 2015	28,517,892	\$ 3	18,000,000	\$ 2	\$ 109,417	\$ 183,458	\$ (5,646 )	\$ —	\$ 287,234

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



Table of Contents

AMERESCO, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

	Nine Months Ended September	
	30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$1,981	\$1,729
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation of project assets	12,115	11,162
Depreciation of property and equipment	2,349	2,495
Amortization of deferred financing fees	850	1,086
Amortization of intangible assets	3,041	3,266
Provision for bad debts	239	1,253
Unrealized gain on interest rate swaps	(277	) (983
Stock-based compensation expense	1,367	2,108
Deferred income taxes	(2,920	) 3,343
Excess tax benefits from stock-based compensation arrangements	—	(2,496
Changes in operating assets and liabilities:		
Restricted cash	(2,216	) (182
Accounts receivable	(5,258	) (11,282
Accounts receivable retainage	(1,501	) 6,392
Federal ESPC receivable	(50,555	) (33,388
Inventory	(3,347	) 1,172
Costs and estimated earnings in excess of billings	(10,792	) 17,768
Prepaid expenses and other current assets	(4,039	) 1,266
Project development costs	(4,999	) (812
Other assets	(2,807	) (3,676
Accounts payable, accrued expenses and other current liabilities	22,396	(3,754
Billings in excess of cost and estimated earnings	7,329	1,403
Other liabilities	(573	) (5,815
Income taxes payable	3,674	(4,148
Cash flows from operating activities	(33,943	) (12,093
Cash flows from investing activities:		
Purchases of property and equipment	(1,040	) (1,553
Purchases of project assets	(29,932	) (16,530
Grant awards received on project assets	—	3,727
Proceeds from sale of assets	852	—
Acquisitions, net of cash received	—	(13,903
Cash flows from investing activities	\$(30,120	) \$(28,259

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



Table of Contents

## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

(Unaudited)

	Nine Months Ended September	
	30,	2014
	2015	2014
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$—	\$2,496
Payments of financing fees	(1,894	) (368
Proceeds from exercises of options	611	1,435
(Repayments) proceeds from senior secured credit facility, net	(5,000	) 20,000
Proceeds from long-term debt financing	4,584	—
Proceeds from Federal ESPC projects	61,846	32,886
Proceeds from sale-leaseback financing	7,581	—
Non-controlling interest	(116	) (7
Restricted cash	(74	) 2,758
Payments on long-term debt	(9,051	) (13,881
Cash flows from financing activities	58,487	45,319
Effect of exchange rate changes on cash	3,070	1,348
Net (decrease) increase in cash and cash equivalents	(2,506	) 6,315
Cash and cash equivalents, beginning of period	23,762	17,171
Cash and cash equivalents, end of period	\$21,256	\$23,486
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$4,197	\$4,999
Cash paid for income taxes	\$1,204	\$2,650
Non-cash Federal ESPC settlement	\$26,320	\$12,350
Accrued purchases of project assets	\$13,241	\$7,319

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

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands, except share and per share amounts)

1. DESCRIPTION OF BUSINESS

Ameresco, Inc. (including its subsidiaries, the “Company”) was organized as a Delaware corporation on April 25, 2000. The Company is a provider of energy efficiency solutions for facilities throughout North America. The Company provides solutions, both products and services, that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. The Company’s comprehensive set of services includes upgrades to a facility’s energy infrastructure and the construction and operation of small-scale renewable energy plants. It also sells certain photovoltaic (“PV”) equipment worldwide. The Company operates in the United States, Canada and Europe.

The Company is compensated through a variety of methods, including: 1) direct payments based on fee-for-services contracts (utilizing lump-sum or cost-plus pricing methodologies); 2) the sale of energy from the Company’s operating assets; and 3) direct payment for PV equipment and systems.

The condensed consolidated financial statements as of September 30, 2015, and for the three and nine months ended September 30, 2015 and 2014, are unaudited. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. The interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation in conformity with GAAP. The interim condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 6, 2015. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Ameresco, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company prepares its financial statements in conformity with GAAP.

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions used in these condensed consolidated financial statements relate to management’s estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, project development costs, fair value of derivative financial instruments and stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and any potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.

The Company is self-insured for employee health insurance. The maximum exposure in fiscal year 2015 under the plan is \$100 per covered participant, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported claims, is determined by management and reflected in the Company’s consolidated balance sheets in accrued expenses and other current liabilities. The liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company’s estimated accrual for this liability could be different than its ultimate obligation if variables such as the frequency or amount of future claims differ significantly from management’s assumptions.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit, overnight repurchase agreements and amounts invested in highly liquid money market funds. Cash equivalents consist of short term investments with original maturities of three

months or less. The Company maintains accounts with financial institutions and the balances in such accounts, at times, exceed federally insured limits. This credit risk is divided among a number of financial institutions that management believes to be of high quality. The carrying amount of cash and cash equivalents approximates their fair value measured using level one inputs per the fair value hierarchy as defined in Note 6.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

**Restricted Cash**

Restricted cash consists of cash and cash equivalents held in escrow accounts in association with construction draws for energy savings performance contracts (“ESPCs”), construction of project assets, operations and maintenance (“O&M”) reserve accounts and cash collateralized letters of credit, as well as cash required under term loans to be maintained in debt service reserve accounts until all obligations have been indefeasibly paid in full. These accounts are primarily invested in highly liquid money market funds. The carrying amount of the cash and cash equivalents in these accounts approximates their fair value measured using level one inputs per the fair value hierarchy as defined in Note 6.

Restricted cash also includes funds held for clients, which represent assets that, based upon the Company’s intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds to third parties, primarily utility service providers, relating to the Company’s enterprise energy management services. As of September 30, 2015 and December 31, 2014, the Company classified the non-current portion of restricted cash of \$10,408 and \$10,636, respectively, in other assets on its consolidated balance sheets.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management’s evaluation of outstanding accounts receivable. Bad debts are written off against the allowance when identified.

Changes in the allowance for doubtful accounts are as follows:

	Nine Months Ended September 30,	
	2015	2014
Allowance for doubtful accounts, beginning of period	\$2,851	\$1,519
Charges to costs and expenses	239	1,253
Account write-offs and other	(295)	(674)
Allowance for doubtful accounts, end of period	\$2,795	\$2,098

**Accounts Receivable Retainage**

Accounts receivable retainage represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from 5% to 10% of the total invoice.

The Company classifies as a current asset those retainages that are expected to be billed in the next twelve months.

**Inventory**

Inventories, which consist primarily of PV solar panels, batteries and related accessories, are stated at the lower of cost (“first-in, first-out” method) or market (determined on the basis of estimated net realizable values). Provisions have been made to reduce the carrying value of inventory to the net realizable value.

**Prepaid Expenses**

Prepaid expenses consist primarily of short-term prepaid expenditures that will amortize within one year.

**Federal ESPC Receivable**

Federal ESPC receivable represents the amount to be paid by various federal government agencies for work performed and earned by the Company under specific ESPCs. The Company assigns certain of its rights to receive those payments to third-party investors that provide construction and permanent financing for such contracts. The receivable is recognized as revenue as each project is constructed. Upon completion and acceptance of the project by the Government, typically within 24 months of construction commencement, the assigned ESPC receivable from the Government and corresponding ESPC liability are eliminated from the Company’s condensed consolidated financial statements.

**Project Development Costs**

The Company capitalizes as project development costs only those costs incurred in connection with the development of energy projects, primarily direct labor, interest costs, outside contractor services, consulting fees, legal fees and

travel, if incurred after a point in time where the realization of related revenue becomes probable. Project development costs incurred prior to the probable realization of revenue are expensed as incurred. The Company classifies as a current asset those project development efforts that are expected to proceed to construction activity in the twelve months that follow. The Company

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

periodically reviews these balances and writes off any amounts where the realization of the related revenue is no longer probable.

**Property and Equipment**

Property and equipment consists primarily of office and computer equipment, and is recorded at cost. Major additions and improvements are capitalized as additions to the property and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred.

Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

Asset Classification	Estimated Useful Life
Furniture and office equipment	Five years
Computer equipment and software costs	Three to five years
Leasehold improvements	Lesser of term of lease or five years
Automobiles	Five years
Land	Unlimited

**Project Assets**

Project assets consist of costs of materials, direct labor, interest costs, outside contract services and project development costs incurred in connection with the construction of small-scale renewable energy plants that the Company owns and the implementation of energy savings contracts. These amounts are capitalized and amortized to cost of revenues in the Company's consolidated statements of income (loss) on a straight line basis over the lives of the related assets or the terms of the related contracts.

The Company capitalizes interest costs relating to construction financing during the period of construction.

Capitalized interest is included in project assets, net in the Company's consolidated balance sheets. Capitalized interest is amortized to cost of revenues in the Company's consolidated statements of income (loss) on a straight line basis over the useful life of the associated project asset. There was \$232 in interest capitalized for the three months ended September 30, 2015. There was no interest capitalized during the three months ended September 30, 2014. There was \$480 and \$395 in interest capitalized for the nine months ended September 30, 2015 and 2014, respectively.

Routine maintenance costs are expensed in the current year's consolidated statements of income (loss) to the extent that they do not extend the life of the asset. Major maintenance, upgrades and overhauls are required for certain components of the Company's assets. In these instances, the costs associated with these upgrades are capitalized and are depreciated over the shorter of the remaining life of the asset or the period until the next required major maintenance or overhaul. Gains or losses on disposal of property and equipment are reflected in selling, general and administrative expenses in the consolidated statements of income (loss).

The Company evaluates its long-lived assets for impairment as events or changes in circumstances indicate the carrying value of these assets may not be fully recoverable. Examples of such triggering events applicable to the Company's assets include a significant decrease in the market price of a long-lived asset or asset group or a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group.

The Company evaluates recoverability of long-lived assets to be held and used by estimating the undiscounted future cash flows before interest associated with the expected uses and eventual disposition of those assets. When these comparisons indicate that the carrying value of those assets is greater than the undiscounted cash flows, the Company recognizes an impairment loss for the amount that the carrying value exceeds the fair value.

From time to time, the Company applies for and receives cash grant awards from the U.S. Treasury Department (the "Treasury") under Section 1603 of the American Recovery and Reinvestment Act of 2009 (the "Act"). The Act authorized the Treasury to make payments to eligible persons who place in service qualifying renewable energy projects. The grants are paid in lieu of investment tax credits. All of the cash proceeds from the grants were used and recorded as a reduction in the cost basis of the applicable project assets. If the Company disposes of the property, or the property



ceases to qualify as specified energy property, within five years from the date the property is placed in service, then a prorated portion of the Section 1603 payment must be repaid.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

The Company did not receive any Section 1603 grants during the nine months ended September 30, 2015. The Company did not receive any Section 1603 grants during the three months ended September 30, 2014. The Company received \$3,727 in Section 1603 grants during the nine months ended September 30, 2014.

For tax purposes, the Section 1603 payments are not included in federal and certain state taxable income and the basis of the property is reduced by 50% of the payment received. Deferred grant income of \$8,429 and \$8,842 recorded in the accompanying consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

**Deferred Financing Fees**

Deferred financing fees relate to the external costs incurred to obtain financing for the Company. Deferred financing fees are amortized over the respective term of the financing using the effective interest method, with the exception of the Company's revolving credit facility, as discussed in Note 9, for which deferred financing fees are amortized on a straight-line basis over the term of the agreement.

**Goodwill and Intangible Assets**

The Company has classified as goodwill the amounts paid in excess of fair value of the net assets (including tax attributes) of companies acquired in purchase transactions. The Company has recorded intangible assets related to customer contracts, customer relationships, non-compete agreements, trade names and technology, each with defined useful lives. The Company assesses the impairment of goodwill and intangible assets that have indefinite lives on an annual basis (December 31<sup>st</sup>) and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than their carrying values. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets.

Factors that could indicate that an impairment may exist include significant under-performance relative to plan or long-term projections, significant changes in business strategy, significant negative industry or economic trends or a significant decline in the base price of the Company's publicly traded stock for a sustained period of time. Although the Company believes goodwill and intangible assets are appropriately stated in the accompanying condensed consolidated financial statements, changes in strategy or market conditions could significantly impact these judgments and require an adjustment to the recorded balance.

**Other Assets**

Other assets consist primarily of notes and contracts receivable due to the Company from various customers and non-current restricted cash. Other assets also include the fair value of interest rate swaps, the non-current portion of project development costs, accounts receivable retainages and deferred tax assets.

**Asset Retirement Obligations**

The Company recognizes a liability for the fair value of required asset retirement obligations ("AROs") when such obligations are incurred. The liability is estimated on a number of assumptions requiring management's judgment, including equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the consolidated statements of income (loss). As of September 30, 2015 and December 31, 2014, the Company had no ARO liabilities recorded.

**Federal ESPC Liabilities**

Federal ESPC liabilities represent the advances received from third-party investors under agreements to finance certain energy savings performance contract projects with various federal government agencies. Upon completion and acceptance of the project by the government, typically within 24 months of construction commencement, the ESPC receivable from the government and corresponding ESPC liability is eliminated from the Company's consolidated

balance sheet. Until recourse to the Company ceases for the ESPC receivables transferred to the investor, upon final acceptance of the work by the government customer, the Company remains the primary obligor for financing received.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

**Sale-Leaseback**

During the first quarter of 2015, the Company entered into an agreement with an investor which gives the Company the option to sell and contemporaneously lease back solar photovoltaic (“solar-PV”) projects that reach commercial operation on or before December 31, 2015 up to a maximum combined funding amount of \$50,000. During the quarter ended March 31, 2015, the Company sold two solar-PV projects and in return received \$7,581 under the agreement.

As part of the agreement, the Company is a party to a master lease agreement that provides for the sale of solar-PV projects to a third-party investor and the simultaneous leaseback of the projects, which the Company then operates and maintains, recognizing revenue through the sale of the electricity and solar renewable energy credits generated by these projects. In sale-leaseback arrangements, the Company first determines whether the solar-PV project under the sale-leaseback arrangement is “integral equipment.” A solar-PV project is determined to be integral equipment when the cost to remove the project from its existing location, including the shipping and reinstallation costs of the solar-PV project at the new site, including any diminution in fair value, exceeds 10% of the fair value of the solar-PV project at the time of its original installation. When the leaseback arrangement expires, the Company has the option to purchase the solar-PV project for the then fair market value or, in certain circumstances, renew the lease for an extended term. All solar-PV projects sold to date under the sale-leaseback program have been determined by the Company not to be integral equipment as the cost to remove the project from its existing location would not exceed 10% of its original fair value.

For solar-PV projects that the Company has determined not to be integral equipment, the Company then determines if the leaseback should be classified as a capital lease or an operating lease. All solar-PV projects sold to date under the sale-leaseback program have been determined by the Company to be capital leases. For leasebacks classified as capital leases, the Company initially records a capital lease asset and capital lease obligation in its consolidated balance sheet equal to the lower of the present value of the Company’s future minimum leaseback payments or the fair value of the solar-PV project. For capital leasebacks, the Company defers any gain or loss, representing the excess or shortfall of cash received from the investor compared to the net book value of the asset in the Company’s consolidated balance sheet at the time of the sale. The Company records the deferred income in other liabilities on its consolidated balance sheet and amortizes the deferred income over the lease term as a reduction to the leaseback rental expense included in cost of revenues in its consolidated statements of income (loss). During the quarter ended March 31, 2015, the Company recorded \$1,029 in deferred income related to sale-leasebacks which will be recognized straight-line over the 20 year lease term. The Company records the capital leaseback assets in project assets, net in its consolidated balance sheets. The Company records the capital lease liabilities in long term debt and capital lease liabilities in its consolidated balance sheets. During the quarter ended March 31, 2015, the Company recorded \$3,511 in capital lease assets and corresponding capital lease liabilities. The initial lease terms for the solar-PV projects sold during the quarter ended March 31, 2015 are 20 years with semi-annual leaseback payments due to the investor ranging from \$43 to \$414 over the lease term. No projects were sold under the agreement during the three months ended September 30, 2015.

**Other Liabilities**

Other liabilities consist primarily of deferred revenue related to multi-year operation and maintenance contracts which expire as late as 2031, deferred income related to sale-leaseback financings and the fair value of derivatives (see Note 7 for additional disclosures).

**Revenue Recognition**

The Company derives revenues from energy efficiency and renewable energy products and services. Energy efficiency products and services include the design, engineering, and installation of equipment and other measures to improve the efficiency, and control the operation, of a facility’s energy infrastructure. Renewable energy products and services include the construction of small-scale plants that produce electricity, gas, heat or cooling from renewable sources of energy, the sale of such electricity, gas, heat or cooling from plants that the Company owns, and the sale

and installation of solar energy products and systems.

Revenue from the installation or construction of projects is recognized on a percentage-of-completion basis. The percentage-of-completion for each project is determined on an actual cost-to-estimated final cost basis. Maintenance revenue is recognized as related services are performed. In accordance with industry practice, the Company includes in current assets and liabilities the amounts of receivables related to construction projects realizable and payable over a period in excess of one year. The revenue associated with contract change orders is recognized only when the authorization for the change order has been properly executed and the work has been performed.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

When the estimate on a contract indicates a loss, or claims against costs incurred reduce the likelihood of recoverability of such costs, the Company records the entire expected loss immediately, regardless of the percentage of completion.

Billings in excess of cost and estimated earnings represents advanced billings on certain construction contracts. Costs and estimated earnings in excess of billings represent certain amounts under customer contracts that were earned and billable but not invoiced.

The Company sells certain products and services in bundled arrangements, where multiple products and/or services are involved. The Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative selling price. The relative selling price is determined using third-party evidence or management's best estimate of selling price.

The Company recognizes revenue from the sale and delivery of products, including the output from renewable energy plants, when produced and delivered to the customer, in accordance with specific contract terms, provided that persuasive evidence of an arrangement exists, the Company's price to the customer is fixed or determinable and collectability is reasonably assured.

The Company recognizes revenue from O&M contracts, consulting services and enterprise energy management services as the related services are performed.

For a limited number of contracts under which the Company receives additional revenue based on a share of energy savings, such additional revenue is recognized as energy savings are generated.

Cost of Revenues

Cost of revenues include the cost of labor, materials, equipment, subcontracting and outside engineering that are required for the development and installation of projects, as well as preconstruction costs, sales incentives, associated travel, inventory obsolescence charges, amortization of intangible assets related to customer contracts and, if applicable, costs of procuring financing. A majority of the Company's contracts have fixed price terms; however, in some cases the Company negotiates protections, such as a cost-plus structure, to mitigate the risk of rising prices for materials, services and equipment.

Cost of revenues also include the costs of maintaining and operating the small-scale renewable energy plants that the Company owns, including the cost of fuel (if any) and depreciation charges.

Income Taxes

The Company provides for income taxes based on the liability method. The Company provides for deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities calculated using the enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

The Company accounts for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors that include, but are not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. The Company evaluates uncertain tax positions on a quarterly basis and adjusts the level of the liability to reflect any subsequent changes in the relevant facts surrounding the uncertain positions.

The Company's liabilities for uncertain tax positions can be relieved only if the contingency becomes legally extinguished through either payment to the taxing authority or the expiration of the statute of limitations, the recognition of the benefits associated with the position meet the "more-likely-than-not" threshold or the liability becomes effectively settled through the examination process.

The Company considers matters to be effectively settled once the taxing authority has completed all of its required or expected examination procedures, including all appeals and administrative reviews; the Company has no plans to appeal or litigate any aspect of the tax position; and the Company believes that it is highly unlikely that the taxing authority would examine or re-examine the related tax position. The Company also accrues for potential interest and

penalties, related to unrecognized tax benefits in income tax expense. See Note 4 for additional information on the Company's income taxes.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

Foreign Currency

The local currency of the Company's foreign operations is considered the functional currency of such operations. All assets and liabilities of the Company's foreign operations are translated into U.S. dollars at period-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the period. Translation adjustments are accumulated as a separate component of stockholders' equity. Foreign currency translation gains and losses are reported in the consolidated statements of comprehensive income (loss). Foreign currency transaction gains and losses are reported in the consolidated statements of income (loss).

Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses, short- and long-term debt, capital lease obligations and interest rate swaps. The estimated fair value of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses and capital lease obligations approximates their carrying value. See below and Note 6 for additional information regarding the Company's fair value measurements.

Fair Value Measurements

The Company follows the guidance related to fair value measurements for all of its non-financial assets and non-financial liabilities, except for those recognized at fair value in the financial statements at least annually. These assets include goodwill and long-lived assets measured at fair value for impairment assessments, and non-financial assets and liabilities initially measured at fair value in a business combination.

Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term debt approximate fair value. The carrying value of the Company's long-term variable-rate debt and capital lease liabilities approximate their fair values based on level two inputs of the fair value hierarchy, as defined in Note 6. As of September 30, 2015, the fair value of the Company's fixed-rate long-term debt exceeds its carrying value by approximately \$1,125. Fair value of the Company's debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities, which are level two inputs of the fair value hierarchy, as defined in Note 6.

The Company accounts for its interest rate swaps as derivative financial instruments in accordance with the related guidance. Under this guidance, derivatives are carried on the Company's consolidated balance sheets at fair value. The fair value of the Company's interest rate swaps are determined based on observable market data in combination with expected cash flows for each instrument.

See Note 6 for additional information related to fair value measurements.

Stock-Based Compensation Expense

Stock-based compensation expense results from the issuance of shares of restricted common stock and grants of stock options to employees, directors, outside consultants and others. The Company recognizes the costs associated with restricted stock and option grants using the fair value recognition provisions of ASC 718, Compensation - Stock Compensation on a straight-line basis over the vesting period of the awards.

Stock-based compensation expense is recognized based on the grant-date fair value. The Company estimates the fair value of the stock-based awards, including stock options, using the Black-Scholes option-pricing model. Determining the fair value of stock-based awards requires the use of highly subjective assumptions, including the fair value of the common stock underlying the award, the expected term of the award and expected stock price volatility.

The assumptions used in determining the fair value of stock-based awards represent management's estimates, which involve inherent uncertainties and the application of management judgment. As a result, if factors change, and different assumptions are employed, the stock-based compensation could be materially different in the future. The risk-free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant, with maturities approximating the expected life of the stock options.



The Company has no history of paying dividends. Additionally, as of each of the grant dates, there was no expectation that the Company would pay dividends over the expected life of the options. The expected life of the awards is estimated using historical data and management's expectations. Because there was no public market for the Company's common stock prior to the Company's initial public offering, management lacked company-specific historical and implied volatility information.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

Therefore, estimates of expected stock volatility were based on that of publicly traded peer companies, and it is expected that the Company will continue to use this methodology until such time as there is adequate historical data regarding the volatility of the Company's publicly traded stock price.

The Company is required to recognize compensation expense for only the portion of options that are expected to vest. Actual historical forfeiture rate of options is based on employee terminations and the number of shares forfeited. This data and other qualitative factors are considered by the Company in determining the forfeiture rate used in recognizing stock compensation expense. If the actual forfeiture rate varies from historical rates and estimates, additional adjustments to compensation expense may be required in future periods. If there are any modifications or cancellations of the underlying unvested securities or the terms of the stock option, it may be necessary to accelerate, increase or cancel any remaining unamortized stock-based compensation expense.

For the three months ended September 30, 2015 and 2014, the Company recorded stock-based compensation expense of \$396 and \$683, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2015 and 2014, the Company recorded stock-based compensation expense of \$1,367 and \$2,108, respectively, in connection with stock-based payment awards. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options. As of September 30, 2015, there was \$3,956 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.9 years.

The Company also accounts for equity instruments issued to non-employee directors and consultants at fair value. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the nine months ended September 30, 2015 or during the year ended December 31, 2014.

**Derivative Financial Instruments**

In the normal course of business, the Company utilizes derivatives contracts as part of its risk management strategy to manage exposure to market fluctuations in interest rates. These instruments are subject to various credit and market risks. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. The Company seeks to manage credit risk by entering into financial instrument transactions only through counterparties that the Company believes to be creditworthy.

Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates. The Company seeks to manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. As a matter of policy, the Company does not use derivatives for speculative purposes. The Company considers the use of derivatives with all financing transactions to mitigate risk. The Company recognizes cash flows from derivative instruments as operating activities in the consolidated statements of cash flows. The effective portion of changes in fair value on interest rate swaps designated as cash flow hedges are recognized in the Company's consolidated statements of comprehensive income (loss). The ineffective portion of changes in fair value on interest rate swaps designated as hedges and changes in fair value on interest rate swaps not designated as hedges are recognized in the Company's consolidated statements of income (loss).

During 2007, the Company entered into two interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover initial notional amounts of \$13,081 and \$3,256, each a variable rate note at fixed interest rates of 5.4% and 5.3%, respectively, and

expire in March 2024 and February 2021, respectively. These interest rate swaps qualified, but were not designated, as cash flow hedges until April 1, 2010. Since April 2010, they have been designated as hedges.

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of approximately \$27,900 variable rate note at a fixed interest rate of 6.99% and expires in December 2024. This swap was designated as a hedge in March 2013. During the second quarter of 2014 this swap was de-designated and re-designated as a hedge as a result of a partial pay down of the associated hedged debt principal. As a result \$566 was reclassified from accumulated other comprehensive income and recorded as a reduction to other expenses, net in the Company's consolidated statements of income (loss) during the second quarter of 2014.

In July 2011, the Company entered into a five-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$38,571 variable rate note at a fixed interest rate of 1.965% and expires in June 2016. This interest rate swap has been designated as a hedge since inception.

In October 2012, the Company entered into two eight-year interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover an initial notional amount of \$16,750 variable rate note at a fixed interest rate of 1.71%. This notional amount increased to \$42,247 on September 30, 2013 and expires in March 2020. These interest rate swaps have been designated as hedges since inception.

In October 2012, the Company also entered into two eight-year forward starting interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover an initial notional amount of \$25,377 variable rate note at a fixed interest rate of 3.70%, with an effective date of March 31, 2020, and expires in June 2028. These interest rate swaps have been designated as hedges since inception.

In September 2015, the Company entered into a seven-year forward starting interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$20,746 variable rate note at a fixed interest rate of 2.19%, with an effective date of February 29, 2016, and expires in February 2023. This interest rate swap has been designated as a hedge since inception.

In September 2015, the Company also entered into a fifteen-year forward starting interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$14,084 variable rate note at a fixed interest rate of 3.26%, with an effective date of February 28, 2023, and expires in December 2038. This interest rate swap has been designated as a hedge since inception.

See Notes 6 and 7 for additional information on the Company's derivative instruments.

Earnings Per Share

Basic earnings per share is calculated using the Company's weighted-average outstanding common shares, including vested restricted shares. When the effects are not anti-dilutive, diluted earnings per share is calculated using the weighted-average outstanding common shares; the dilutive effect of convertible preferred stock, under the "if converted" method; and the treasury stock method with regard to warrants and stock options; all as determined under the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$4,178	\$7,291	\$1,981	\$1,729

Edgar Filing: Ameresco, Inc. - Form 10-Q

Basic weighted-average shares outstanding	46,517,638	46,315,968	46,473,375	46,098,158
Effect of dilutive securities:				
Stock options	1,155,306	671,554	770,418	538,371
Diluted weighted-average shares outstanding	47,672,944	46,987,522	47,243,793	46,636,529

For the three months ended September 30, 2015 and 2014, the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares, as the effect would be anti-dilutive, were 2,118,062 and 2,158,312, respectively. For the nine months ended September 30, 2015 and 2014, the total number of shares of common stock related to

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

stock options excluded from the calculation of dilutive shares, as the effect would have been anti-dilutive had the Company not been in a net loss position, were 2,535,162 and 2,158,312, respectively.

Variable Interest Entities

Certain contracts are executed jointly through partnership and joint venture arrangements with unrelated third parties. Generally, these arrangements are characterized by a 50 percent or less ownership interest that requires only a small initial investment. The arrangements are often formed for the single business purpose of executing a specific project and allow the Company to share risks and/or secure specialty skills required for project execution.

The Company evaluates each partnership and joint venture at inception to determine if it qualifies as a variable interest entity (“VIE”) under ASC 810, Consolidation. A VIE is an entity used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors who are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. Upon the occurrence of certain events outlined in ASC 810, the Company reassesses its initial determination of whether the partnership or joint venture is a VIE.

The Company also evaluates whether it is the primary beneficiary of each VIE and consolidates the VIE if the Company has both (a) the power to direct the economically significant activities of the entity and (b) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining whether it qualifies as the primary beneficiary. The Company also considers all parties that have direct or implicit variable interests when determining whether it is the primary beneficiary. When the Company is determined to be the primary beneficiary, the VIE is consolidated. As required by ASC 810, management's assessment of whether the Company is the primary beneficiary of a VIE is continuously performed.

Redeemable Non-Controlling Interest

In September 2015, the Company entered into an agreement with a third party investor which granted the investor ownership interests in the net assets of certain of the Company’s renewable energy project subsidiaries. The Company entered into this agreement in order to finance the costs of constructing the project assets which are under long-term customer contracts. The Company has determined that it is the primary beneficiary in the operational partnership for accounting purposes. Accordingly, the Company will consolidate the assets and liabilities and operating results of the entities in its consolidated financial statements. The Company will recognize the investors’ share of the net assets of the subsidiary as a redeemable non-controlling interest in its condensed consolidated balance sheets.

The Company has determined that the provisions in the contractual arrangement represent a substantive profit-sharing arrangement. The Company has further determined that the appropriate methodology for attributing income and loss to the redeemable non-controlling interest each period is a balance sheet approach referred to as the hypothetical liquidation at book value (“HLBV”) method. Under the HLBV method, the amounts of income and loss attributed to the redeemable non-controlling interest in the consolidated statements of operations reflect changes in the amounts the investor would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreement, assuming the net assets of this funding structure was liquidated at recorded amounts. The investors’ non-controlling interest in the results of operations of this funding structure is determined as the difference in the non-controlling interest’s claim under the HLBV method at the start and end of each reporting period, after taking into account any capital transactions, such as contributions or distributions, between the Company’s subsidiary and the investor. The use of the HLBV methodology to allocate income to the redeemable non-controlling interest holder may create volatility in the Company’s consolidated statements of operations as the application of HLBV can drive changes in net income available and loss attributable to the redeemable non-controlling interest from quarter to quarter.

The Company classified the non-controlling interest with redemption features that are not solely within the control of the Company outside of permanent equity on its consolidated balance sheets. The redeemable non-controlling interest will be reported using the greater of its carrying value at each reporting date as determined by the HLBV method or

the estimated redemption value in each reporting period.

The initial contribution made by the investor was not material to the Company's financial statements as of September 30, 2015.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU affects any entity 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. The guidance in this ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. This ASU also supersedes some cost guidance included in ASC 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 are amended to be consistent with the guidance on recognition and measurement in this ASU. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017. Entities would be permitted to adopt the standard as early as the original public entity effective date (i.e., annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date is not permitted. Retrospective application of the amendments in this ASU is required. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption (with some limited relief provided) or a modified retrospective approach. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles of current U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company does not believe that this pronouncement will have an impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-03): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement on its consolidated financial statements.



Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

## 3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying value of goodwill attributable to each reportable segment are as follows:

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	Other	Total
Balance, December 31, 2014	\$24,759	\$3,375	\$3,781	\$ —	\$28,564	\$60,479
Goodwill acquired during the year	—	—	—	—	—	—
Fair value adjustment(1)	—	—	—	—	(403 )	(403 )
Currency effects	—	—	(511 )	—	(194 )	(705 )
Balance, September 30, 2015	\$24,759	\$3,375	\$3,270	\$ —	\$27,967	\$59,371
Accumulated Goodwill						
Impairment Balance, December 31, 2014	\$—	\$—	\$(1,016 )	\$—	\$—	\$(1,016 )
Accumulated Goodwill						
Impairment Balance, September 30, 2015	\$—	\$—	\$(1,016 )	\$—	\$—	\$(1,016 )

(1) Fair value adjustment represents the final net working capital adjustment for purchase accounting related to the Company's prior year acquisition of Energyexcel LLP ("EEX").

Separable intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. The Company annually assesses whether a change in the life over which the Company's assets are amortized is necessary, or more frequently if events or circumstances warrant. No changes to useful lives were made during the nine months ended September 30, 2015 or for the year ended December 31, 2014.

Acquired intangible assets other than goodwill that are subject to amortization include customer contracts, customer relationships, non-compete agreements, technology and trade names. Customer contracts are amortized ratably over the period of the acquired customer contracts ranging in periods from approximately one to five years. All other acquired intangible assets are amortized over periods ranging from approximately four to fifteen years, as defined by the nature of the respective intangible asset.

The gross carrying amount and accumulated amortization of intangible assets are as follows:

	As of September 30, 2015	As of December 31, 2014
Gross Carrying Amount		
Customer contracts	\$7,965	\$8,103
Customer relationships	12,629	12,792
Non-compete agreements	3,350	3,402
Technology	2,718	2,794
Trade names	542	551
	27,204	27,642
Accumulated Amortization		
Customer contracts	7,503	6,911
Customer relationships	6,134	4,562
Non-compete agreements	3,050	2,725
Technology	2,060	1,767
Trade names	474	439
	19,221	16,404
Intangible assets, net	\$7,983	\$11,238

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). Amortization expense for the three months ended September 30, 2015 and 2014 related to customer contracts was \$230 and \$513, respectively. Amortization expense for the nine

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

months ended September 30, 2015 and 2014 related to customer contracts was \$689 and \$1,127, respectively. Amortization expense for the three months ended September 30, 2015 and 2014 related to all other acquired intangible assets was \$787 and \$875, respectively. Amortization expense for the nine months ended September 30, 2015 and 2014 related to all other acquired intangible assets was \$2,352 and \$2,139, respectively.

**4. INCOME TAXES**

The provision (benefit) for income taxes was \$3,343 and \$(532) for the three months ended September 30, 2015 and 2014, respectively. The provision (benefit) for income taxes was \$2,187 and \$(501) for the nine months ended September 30, 2015 and 2014, respectively. The estimated 2015 effective tax rate was 44.4% for the three months ended September 30, 2015 compared to a (7.9)% estimated annual effective tax rate for the three months ended September 30, 2014. The estimated 2015 effective tax rate was 52.5% for the nine months ended September 30, 2015 compared to an estimated annual effective tax rate for the nine months ended September 30, 2014 of (40.8)% .

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	Gross Unrecognized Tax Benefits
Balance, December 31, 2014	\$3,700
Additions for prior year tax positions	—
Settlements with tax authorities	—
Reductions of prior year tax positions	—
Balance, September 30, 2015	\$3,700

At both September 30, 2015 and December 31, 2014, the Company had approximately \$3,700 of total gross unrecognized tax benefits. Of the total gross unrecognized tax benefits as of September 30, 2015 and December 31, 2014, approximately \$3,700 and \$2,500, respectively, (net of the federal benefit on state amounts) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

**5. COMMITMENTS AND CONTINGENCIES****Legal Proceedings**

The Company is involved in a variety of claims and other legal proceedings generally incidental to its normal business activities. While the outcome of any of these proceedings cannot be accurately predicted, the Company does not believe the ultimate resolution of any of these existing matters would have a material adverse effect on its financial condition or results of operations.

**Solar Tariff Contingency**

In October 2012, the U.S. Department of Commerce (“Commerce”) announced its final determination in the anti-dumping (“AD”) and countervailing duty (“CVD”) investigations of imports of solar cells manufactured in the People’s Republic of China (“PRC”), including solar modules containing such cells. Commerce’s final determination confirmed its previously published AD duty of 249.96%, for manufacturers without a separate rate, and increased its CVD from 3.61% to 15.24%; both duties are applied to the value of imports of solar modules containing PRC cells. On November 7, 2012, the International Trade Commission announced its final determination upholding the duties. All shipments from May 25, 2012 until the Company suspended importing solar modules containing PRC cells in July 2012 (“covered shipments”) were subject to the CVD and were covered by a single continuous entry bond. Covered shipments also were subject to AD duty, for each of which the Company was required to post a single entry bond. In August, 2014, U.S. Customs lifted suspension of liquidation of covered shipments. As a result of liquidation, during the third and fourth quarters of 2014, the Company paid CVD on covered shipments at the 3.61% rate. During the fourth quarter of 2014 through the first quarter of 2015, the Company paid AD duties on covered shipments at a 31.18% rate. The Company is awaiting receipt of a final bill from U.S. Customs for liquidation of one remaining

covered shipment containing PRC cells.

The Company has established a reserve reflecting its current estimate of its ultimate exposure to these assessments.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

## Commitments as a Result of Acquisitions

Related to the Company's acquisition of EEX in the second quarter of 2014, the former owners of EEX, who are now employees of the Company, may be entitled to receive up to 4,500 British pounds sterling (\$6,824 converted as of September 30, 2015) in additional consideration, accounted for as compensation for post-combination services, if the acquired business meets certain financial performance milestones through December 31, 2018.

## 6. FAIR VALUE MEASUREMENT

The Company recognizes its financial assets and liabilities at fair value on a recurring basis (at least annually). Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Three levels of inputs that may be used to measure fair value are as follows:

Level 1: Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2: Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following table presents the input level used to determine the fair values of the Company's financial instruments measured at fair value on a recurring basis:

	Level	Fair Value as of	
		September 30, 2015	December 31, 2014
Liabilities:			
Interest rate swap instruments	2	\$5,825	\$4,430

The fair value of the Company's interest rate swaps was determined using a cash flow analysis on the expected cash flow of the contract in combination with observable market-based inputs, including interest rate curves and implied volatilities. As part of this valuation, the Company considered the credit ratings of the counterparties to the interest rate swaps to determine if a credit risk adjustment was required.

The fair value of financial instruments is determined by reference to observable market data and other valuation techniques as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At September 30, 2015, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on quoted market prices or on rates available to the Company for debt with similar terms and maturities, which are considered to be level two inputs. There were no transfers in or out of level two for the nine months ended September 30, 2015. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt, excluding capital lease liabilities, are as follows:

	As of September 30, 2015		As of December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	\$93,180	\$92,055	\$102,362	\$102,292

The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. The Company determined the fair value used in its annual impairment analysis with its own discounted cash flow analysis. The Company has determined the inputs used in such analysis as level three inputs. The Company did not record any impairment charges on goodwill or other intangible assets during the nine months ended September 30, 2015.



Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

## 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Information about the fair value amounts of the Company's derivative instruments is as follows:

	Derivatives as of		December 31, 2014	
	September 30, 2015		Balance Sheet	Fair Value
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location	
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other liabilities	\$5,825	Other liabilities	\$4,430

The following table presents information about the effects of the Company's derivative instruments on the consolidated statements of income (loss) and consolidated statements of comprehensive income (loss):

	Location of Gain Recognized in Net Income	Amount of Gain Recognized in Net Income	
		Three Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Derivatives Designated as Hedging Instruments:			
Interest rate swap contracts	Other expenses, net	\$(93 )	\$(1,266 )
		Loss Recognized in Accumulated Other Comprehensive Loss	Interest Expense Reclassified from Accumulated Other Comprehensive Loss into Other Expenses, Net
		\$1,672	\$1,153

## 8. BUSINESS SEGMENT INFORMATION

The Company reports results under ASC 280, Segment Reporting. The Company's reportable segments are U.S. Regions, U.S. Federal, Canada and Small-Scale Infrastructure. The Company's U.S. Regions, U.S. Federal and Canada segments offer energy efficiency products and services, which include the design, engineering and installation of equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure; renewable energy solutions and services, which include the construction of small-scale plants for customers that produce electricity, gas, heat or cooling from renewable sources of energy; and O&M services. The Company's Small-Scale Infrastructure segment sells electricity, processed landfill gas, heat or cooling produced from renewable sources of energy from small-scale plants that the Company owns. The "All Other" category offers enterprise energy management services, consulting services and the sale and installation of solar-PV energy products and systems. These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments.

The reports of the Company's chief operating decision maker do not include assets at the operating segment level.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

An analysis of the Company's business segment information and reconciliation to the condensed consolidated financial statements is as follows:

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	All Other	Total Consolidated
Three Months Ended September 30, 2015						
Revenues	\$ 105,163	\$ 35,491	\$ 12,931	\$ 14,681	\$ 20,876	\$ 189,142
Interest expense	—	—	369	990	—	1,359
Depreciation and amortization of intangible assets	223	299	278	3,678	1,023	5,501
Unallocated corporate activity	—	—	—	—	—	(6,243 )
Income (loss) before taxes, excluding unallocated corporate activity	9,955	4,331	(1,660 )	2,992	(1,854 )	13,764
Three Months Ended September 30, 2014						
Revenues	79,217	27,600	21,776	13,954	26,344	168,891
Interest income	—	—	—	11	1	12
Interest expense	—	—	355	1,006	—	1,361
Depreciation and amortization of intangible assets	330	315	390	3,204	1,213	5,452
Unallocated corporate activity	—	—	—	—	—	(6,844 )
Income (loss) before taxes, excluding unallocated corporate activity	7,468	4,953	(289 )	1,372	99	13,603
Nine Months Ended September 30, 2015						
Revenues	225,643	90,071	37,663	42,059	61,628	457,064
Interest income	—	—	3	159	—	162
Interest expense	—	—	980	2,914	—	3,894
Depreciation and amortization of intangible assets	715	907	803	10,469	3,053	15,947
Unallocated corporate activity	—	—	—	—	—	(19,644 )
Income (loss) before taxes, excluding unallocated corporate activity	17,203	12,633	(7,238 )	6,619	(5,405 )	23,812
Nine Months Ended September 30, 2014						
Revenues	180,863	66,257	57,843	39,309	67,908	412,180
Interest income	—	—	1	34	1	36
Interest expense	—	—	1,025	2,283	—	3,308
Depreciation and amortization of intangible assets	977	879	1,210	9,451	2,948	15,465
Unallocated corporate activity	—	—	—	—	—	(21,847 )
Income (loss) before taxes, excluding unallocated corporate activity	\$ 12,746	\$ 8,542	\$ (3,336 )	\$ 5,187	\$ (64 )	\$ 23,075



activity

23

---

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

## 9. LONG-TERM DEBT

## Variable-Rate Construction and Term Loans

In October 2012, the Company entered into a credit and guaranty agreement with two banks for use in providing limited recourse financing for certain of its landfill gas to energy and solar PV projects. The credit and guaranty agreement provides for a \$47,234 construction-to-term loan credit facility and bears interest at a variable rate. The loans were fully converted to a term loan during the year ended December 31, 2014. At September 30, 2015, \$39,159 was outstanding under the term loan. The variable rate for this loan at September 30, 2015 was 3.33%.

In September 2015, the Company entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar-PV projects currently under construction. The credit and guaranty agreement provides for a \$20,746 construction-to-term loan credit facility and bears interest at a variable rate. The term loan matures on the 7th anniversary of the construction-to-term conversion date. At September 30, 2015, \$5,199 was outstanding under the construction loan. The variable rate for this loan at September 30, 2015 was 2.823%.

## Senior Secured Credit Facility - Revolver and Term Loan

On March 12, 2014, the Company amended the senior secured credit facility as follows: (i) to increase the margins added to Bank of America's prime rate or the one-, two- three- or six-month London interbank deposit rate, as applicable, in determining the interest rate by 25 basis points to 0.50% and 2.00%, respectively; (ii) to waive compliance with the minimum EBITDA covenant for the four consecutive fiscal quarters ended December 31, 2013; (iii) to reduce the required minimum EBITDA amount to \$16,500 for the four consecutive fiscal quarters ended March 31, 2014, \$22,000 for the four consecutive fiscal quarters ended June 30, 2014, \$24,000 for the four consecutive fiscal quarters ended September 30, 2014, and \$27,000 for the four consecutive fiscal quarters ended December 31, 2014 and thereafter; (iv) to increase the maximum ratio of total funded debt to EBITDA as of the end of each fiscal quarter to 2.5 to 1.0 for March 31, 2014 and 2.25 to 1.0 for June 30, 2014, returning to 2.0 to 1.0 for September 30, 2014 and thereafter; and (v) to reduce the minimum ratio of cash flow to debt service to 1.25 to 1.0 for the four fiscal quarters ended March 31, 2014, returning to 1.5 to 1.0 for the four fiscal quarters ended June 30, 2014 and thereafter.

On June 30, 2015, the Company entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extended the Company's existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016. The revolving credit facility matures on June 30, 2020 and the term loan facility matures on June 30, 2018, when all amounts will be due and payable in full. The Company expects to use the new credit facility for general corporate purposes of the Company and its subsidiaries, including permitted acquisitions, refinancing of existing indebtedness and working capital.

The credit facility consists of a \$60,000 revolving credit facility and a \$17,143 term loan. The amount of the term loan represents the amount outstanding under the Company's existing term loan at closing. The revolving credit facility may be increased by up to an additional \$25,000 at the Company's option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20,000 of the revolving credit facility may be borrowed in Canadian dollars, Euros and Pounds Sterling. The Company is the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of the Company's direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of the Company's and such subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries (as defined in the agreement). Immediately following the closing, and at September 30, 2015, there were no amounts outstanding under the revolving credit facility and \$15,714 outstanding under the term loan.

The interest rate for borrowings under the credit facility is based on, at the Company's option, either (1) a base rate equal to a margin of 0.50% or 0.25%, depending on the Company's ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50%, (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on the Company's ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility.

At September 30, 2015, the interest rate for borrowings under the revolving credit facility was 3.50% and interest rate for borrowings under the term loan was 2.08%. Interest on the term loan has been swapped into a fixed rate of 3.72%. The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1,429, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at the

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

Company's option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

The credit facility limits the Company's and its subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; merge, liquidate or dispose of assets; make acquisitions or other investments; enter into hedging agreements; pay dividends and make other distributions and engage in transactions with affiliates, except in the ordinary course of business on an arms' length basis.

Under the credit facility, the Company and its subsidiaries may not invest cash or property in, or loan to, the Company's non-core subsidiaries in aggregate amounts exceeding 49% of the Company's consolidated stockholders' equity. In addition, under the credit facility, the Company and its core subsidiaries must maintain the following financial covenants:

- a ratio of total funded debt to EBITDA of less than 2.0 to 1.0; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

Any failure to comply with the financial or other covenants of the credit facility would not only prevent the Company from being able to borrow additional funds, but would constitute a default, permitting the lenders to, among other things, accelerate the amounts outstanding, including all accrued interest and unpaid fees, under the credit facility, to terminate the credit facility, and enforce liens against the collateral.

The credit facility also includes several other customary events of default, including a change in control of the Company, permitting the lenders to accelerate the indebtedness, terminate the credit facility, and enforce liens against the collateral.

For purposes of the Company's senior secured facility: EBITDA excludes the results of certain renewable energy projects that the Company owns and for which financing from others remains outstanding; total funded debt includes amounts outstanding under both the term loan and revolver portions of the senior secured credit facility plus other indebtedness, but excludes non-recourse indebtedness of project company subsidiaries; and debt service includes principal and interest payments on the indebtedness included in total funded debt other than principal payments on the revolver portion of the facility.

At September 30, 2015, the Company was in compliance with all financial and operational covenants.

Table of Contents

AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

10. Subsequent Events

In November 2015, the Company announced restructuring plans within its Canada segment and its enterprise energy management business unit, which is reported within the Company's All Other category for segment reporting purposes. The Company expects to incur \$1,000 to \$1,500 in associated costs, primarily related to employee termination benefits, during the fourth quarter of 2015 as a result of these plans.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2014 included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 6, 2015 with the U.S. Securities and Exchange Commission ("SEC"). This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical fact, including statements that refer to projections regarding our future financial performance, our anticipated growth and trends in our businesses, our future capital needs and capital expenditures; our future market position and competitive changes in the marketplace for our services; our ability to integrate new technologies into our services; our ability to access credit or capital markets; our reliance on subcontractors; potential acquisitions or divestitures; the continued availability of key personnel; and other characterizations of future events or circumstances are forward-looking statements. These statements are often, but not exclusively, identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "target," "project," "predict" or "continue," and similar expressions or variations. These forward-looking statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Risks, uncertainties and factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to do so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

Ameresco is a leading provider of energy efficiency solutions for facilities throughout North America. We provide solutions that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. Our comprehensive set of services includes upgrades to a facility's energy infrastructure and the construction and operation of small-scale renewable energy plants.

In September 2015, we entered into an agreement with a third party investor which granted the investor ownership interests in the net assets of certain of our renewable energy project subsidiaries. We entered into this agreement in order to finance the costs of constructing the project assets which are under long-term customer contracts. We have determined that we are the primary beneficiary in the operational partnership for accounting purposes. Accordingly, we will consolidate the assets and liabilities and operating results of the entities in our consolidated financial statements. We will recognize the investors' share of the net assets of the investor's funds as redeemable non-controlling interests in our condensed consolidated balance sheets. These income or loss allocations, which will be reflected on our condensed consolidated statement of operations, may create significant volatility in our reported results of operations, including potentially changing net income available (loss attributable) to common stockholders

from income to loss, or vice versa, from quarter to quarter. The initial contribution made by the investor was not material to our financial statements as of September 30, 2015. We expect to record redeemable non-controlling interests related to this transaction in the fourth quarter of 2015 or first quarter of 2016.

In addition to organic growth, strategic acquisitions of complementary businesses and assets have been an important part of our historical development. Since inception, we have completed numerous acquisitions, which have enabled us to broaden our service offerings and expand our geographical reach.

Our acquisition of the energy consultancy and energy project management business of Energyexcel LLP in the third quarter of 2014 added to our local presence in the UK and to our commercial and industrial customer base.

## Table of Contents

Our acquisition of the business of Ennovate Corporation in the first quarter of 2013 increased our footprint and penetration in the Rocky Mountain area. Our acquisition of energy management consulting companies The Energy Services Partnership Limited (now known as Ameresco Limited) and ESP Response Limited in the second quarter of 2013 added a local presence in the United Kingdom (“UK”), expertise and seasoned energy industry professionals to support multi-national customers of our enterprise energy management service offerings.

Our acquisition of infrastructure asset management solutions provider FAME Facility Software Solutions Inc. in 2012 expanded our asset planning consulting and software services offerings and our geographical position in western Canada.

We made three acquisitions in 2011. Our acquisition of energy efficiency and demand side management consulting services provider Applied Energy Group, Inc., expanded our service offering to utility customers. Our acquisition of APS Energy Services Company, Inc., which we renamed Ameresco Southwest, a company that provides a full range of integrated energy efficiency and renewable energy solutions, strengthened our geographical position in the southwest U.S. Our acquisition of the xChangePoint® and energy projects businesses from Energy and Power Solutions, Inc., which we operate as Ameresco Intelligent Systems (“AIS”), expanded our service offerings to private sector commercial and industrial customers. AIS offers energy efficiency solutions to customers across North America encompassing the food and beverage, meat, dairy, paper, aerospace, oil and gas and REIT industries.

Our acquisition of the energy services business of Duke Energy in 2002 expanded our geographical reach into Canada and the southeastern United States and enabled us to penetrate the federal government market for energy efficiency projects. The acquisition of the energy services business of Exelon in 2004 expanded our geographical reach into the Midwest. Our acquisition of the energy services business of Northeast Utilities in 2006 substantially grew our capability to provide services for the federal market and in Europe. Our acquisition of Southwestern Photovoltaic in 2007 significantly expanded our offering of solar energy products and services. Our acquisition of energy services company Quantum in 2010 expanded our geographical reach into the northwest U.S.

### Effects of Seasonality

We are subject to seasonal fluctuations and construction cycles, particularly in climates that experience colder weather during the winter months, such as the northern United States and Canada, or at educational institutions, where large projects are typically carried out during summer months when their facilities are unoccupied. In addition, Government customers, many of which have fiscal years that do not coincide with ours, typically follow annual procurement cycles and appropriate funds on a fiscal-year basis even though contract performance may take more than one year. Further, Government contracting cycles can be affected by the timing of, and delays in, the legislative process related to Government programs and incentives that help drive demand for energy efficiency and renewable energy projects. As a result, our revenue and operating income in the third quarter are typically higher, and our revenue and operating income in the first quarter are typically lower, than in other quarters of the year. As a result of such fluctuations, we may occasionally experience declines in revenue or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

Our annual and quarterly financial results are also subject to significant fluctuations as a result of other factors, many of which are outside our control. See “Our business is affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results” in Item 1A, Risk Factors in our Annual Report on Form 10-K.

### Backlog and Awarded Projects

Total project backlog represents projects that are active within our ESPC sales cycle. Our sales cycle begins with the initial contact with the customer and ends, when successful, with a signed contract, also referred to as fully-contracted backlog. Our sales cycle recently has been averaging 18 to 42 months. Awarded backlog is created when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated from upgrading the customer’s energy infrastructure. At this point, we also determine the sub-contractor, what equipment will be used, and assist in arranging for third party financing, as applicable. Recently, awarded projects have been taking 12 to 18 months to result in a signed contract and thus

convert to fully-contracted backlog. It may take longer, however, depending upon the size and complexity of the project. Historically, approximately 90% of our awarded projects ultimately have resulted in a signed contract. After the customer and Ameresco agree to the terms of the contract and the contract becomes executed, the project moves to fully-contracted backlog. The contracts reflected in our fully-contracted backlog typically have a construction period of 12 to 24 months and we typically expect to recognize revenues for such contracts over the same period. Fully-contracted backlog begins converting into revenues generated from backlog on a percentage-of-completion basis once



## Table of Contents

construction has commenced. See “We may not recognize all revenues from our backlog or receive all payments anticipated under awarded projects and customer contracts” and “In order to secure contracts for new projects, we typically face a long and variable selling cycle that requires significant resource commitments and requires a long lead time before we realize revenues” in Item 1A, Risk Factors in our Annual Report on Form 10-K.

As of September 30, 2015, we had backlog of approximately \$379.3 million in expected future revenues under signed customer contracts for the installation or construction of projects, which we sometimes refer to as fully-contracted backlog; and we also had been awarded projects for which we do not yet have signed customer contracts with estimated total future revenues of an additional \$1,032.6 million. As of September 30, 2014, we had fully-contracted backlog of approximately \$400.6 million in expected future revenues under signed customer contracts for the installation or construction of projects; and we also had been awarded projects for which we had not yet signed customer contracts with estimated total future revenues of an additional \$964.8 million.

We define our 12-month backlog as the estimated amount of revenues that we expect to recognize in the next twelve months from our fully-contracted backlog. As of September 30, 2015 and 2014, our 12-month backlog was \$306.8 million and \$310.6 million, respectively.

Assets in development, which represents the potential design/build project value of small-scale renewable energy plants that have been awarded or for which we have secured development rights, was \$185.2 million and \$110.5 million as of September 30, 2015 and 2014, respectively.

### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. The most significant estimates with regard to these condensed consolidated financial statements relate to estimates of final contract profit in accordance with long-term contracts, project development costs, project assets, impairment of goodwill, impairment of long-lived assets, fair value of derivative financial instruments, income taxes and stock-based compensation expense.

Such estimates and assumptions are based on historical experience and on various other factors that management believes to be reasonable under the circumstances. Estimates and assumptions are made on an ongoing basis, and accordingly, the actual results may differ from these estimates.

The following, in no particular order, are certain critical accounting policies that among others, affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

• Revenue Recognition;

• Project Assets;

• Derivative Financial Instruments; and

• Variable Interest Entities.

Further details regarding our critical accounting policies and estimates can be found in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K. In addition, please refer to Note 2, “Summary of Significant Accounting Policies,” of our Notes to Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q. Management has determined that no material changes concerning our critical accounting policies have occurred since December 31, 2014.

### Non-GAAP Financial Measures

We use the non-GAAP financial measures defined and discussed below to provide investors and others with useful supplemental information to our financial results prepared in accordance with GAAP. These non-GAAP financial measures should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. The tables below provide a reconciliation of these non-GAAP measures to the most directly comparable financial measures prepared in accordance with GAAP.



Table of Contents

We understand that, although measures similar to these non-GAAP financial measures are frequently used by investors and securities analysts in their evaluation of companies, they have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for the most directly comparable GAAP financial measures or an analysis of our results of operations as reported under GAAP. To properly and prudently evaluate our business, we encourage investors to review our GAAP financial statements included above, and not to rely on any single financial measure to evaluate our business.

**Adjusted EBITDA**

We define adjusted EBITDA as operating income (loss) before depreciation, amortization of intangible assets, impairment of goodwill and stock-based compensation expense. We believe adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons: adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, capital structures and the methods by which assets were acquired; securities analysts often use adjusted EBITDA and similar non-GAAP measures as supplemental measures to evaluate the overall operating performance of companies; and by comparing our adjusted EBITDA in different historical periods, investors can evaluate our operating results without the additional variations of depreciation and amortization expense, goodwill impairment and stock-based compensation expense.

Our management uses adjusted EBITDA: as a measure of operating performance, because it does not include the impact of items that we do not consider indicative of our core operating performance; for planning purposes, including the preparation of our annual operating budget; to allocate resources to enhance the financial performance of the business; to evaluate the effectiveness of our business strategies; and in communications with the board of directors and investors concerning our financial performance.

**Adjusted Cash From Operations**

We define adjusted cash from operations as cash flows from operating activities plus proceeds from Federal ESPC projects. Cash received in payment of Federal ESPC projects is treated as a financing cash flow under GAAP due to the unusual financing structure for these projects. These cash flows, however, correspond to the revenues generated by these projects. Thus we believe that adjusting operating cash flow to include the cash generated by our Federal ESPC projects provides investors with a useful measure for evaluating the cash generating ability of our core operating business. Our management uses adjusted cash from operations as a measure of liquidity because it captures all sources of cash associated with our revenues generated by operations.

**Reconciliations**

The following table presents a reconciliation of adjusted EBITDA to operating income, the most comparable GAAP measure (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating income	\$9,670	\$9,224	\$10,326	\$6,221
Depreciation and amortization of intangible assets	6,010	5,938	17,505	16,923
Stock-based compensation	396	683	1,367	2,108
Adjusted EBITDA	\$16,076	\$15,845	\$29,198	\$25,252

The following table presents a reconciliation of adjusted cash from operations to cash flows from operating activities, the most comparable GAAP measure (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities	\$(33,943)	\$(12,093)
Plus: proceeds from Federal ESPC projects	61,846	32,886

Adjusted cash from operations	\$27,903	\$20,793
Recent Accounting Pronouncements		

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU affects any entity that either enters

Table of Contents

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. The guidance in this ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. This ASU also supersedes some cost guidance included in ASC 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 are amended to be consistent with the guidance on recognition and measurement in this ASU. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017. Entities would be permitted to adopt the standard as early as the original public entity effective date (i.e., annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date would not be permitted. Retrospective application of the amendments in this ASU is required. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption (with some limited relief provided) or a modified retrospective approach. We are currently assessing the impact of this ASU on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles of current U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. We do not believe that this pronouncement will have an impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual reporting periods. Early adoption is permitted. We are currently assessing the impact of this pronouncement on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-03): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual reporting periods. Early adoption is permitted. We are currently assessing the impact of this pronouncement on our consolidated financial statements.

Table of Contents

## Results of Operations

The following tables set forth certain financial data from the consolidated statements of income (loss) expressed as a percentage of revenues for the periods presented (in thousands):

	Three Months Ended September 30,				
	2015		2014		
	Dollar Amount	% of Revenues	Dollar Amount	% of Revenues	
Revenues	\$189,142	100.0	% \$168,891	100.0	%
Cost of revenues	152,849	80.8	% 133,867	79.3	%
Gross profit	36,293	19.2	% 35,024	20.7	%
Selling, general and administrative expenses	26,623	14.1	% 25,800	15.3	%
Operating income	9,670	5.1	% 9,224	5.5	%
Other expenses, net	2,149	1.1	% 2,465	1.5	%
Income before provision (benefit) from income taxes	7,521	4.0	% 6,759	4.0	%
Income tax provision (benefit)	3,343	1.8	% (532)	(0.3)	)%
Net income	\$4,178	2.2	% \$7,291	4.3	%

	Nine Months Ended September 30,				
	2015		2014		
	Dollar Amount	% of Revenues	Dollar Amount	% of Revenues	
Revenues	\$457,064	100.0	% \$412,180	100.0	%
Cost of revenues	370,232	81.0	% 331,666	80.5	%
Gross profit	86,832	19.0	% 80,514	19.5	%
Selling, general and administrative expenses	76,506	16.7	% 74,293	18.0	%
Operating income	10,326	2.3	% 6,221	1.5	%
Other expenses, net	6,158	1.3	% 4,993	1.2	%
Income before provision (benefit) for income taxes	4,168	0.9	% 1,228	0.3	%
Income tax provision (benefit)	2,187	0.5	% (501)	(0.1)	)%
Net income	\$1,981	0.4	% \$1,729	0.4	%

## Revenues

The following tables set forth a comparison of our revenues for the periods presented (in thousands):

	Three Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
	Revenues	\$189,142	\$168,891	\$20,251	

	Nine Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
	Revenues	\$457,064	\$412,180	\$44,884	

Revenues increased \$20.3 million, or 12.0%, for the three months ended September 30, 2015 compared to the same period of 2014 due to a \$25.9 million increase in revenues from our U.S. Regions segment and a \$7.9 million increase in revenues from our U.S. Federal segment, partially offset by a \$8.8 million decrease in revenues from our Canada segment. Revenues increased \$44.9 million, or 10.9%, for the nine months ended September 30, 2015 compared to the same period of 2014 due to a \$44.8 million increase in revenues from our U.S. Regions segment and a \$23.8 million

increase in revenues from our U.S. Federal segment, partially offset by a \$20.2 million decrease in revenues from our Canada segment.

Table of Contents

## Cost of Revenues and Gross Profit

The following tables set forth a comparison of our cost of revenues and gross profit for the periods presented (in thousands):

	Three Months Ended September 30,		Dollar Change	Percentage Change	
	2015	2014			
Cost of revenues	\$152,849	\$133,867	\$18,982	14.2	%
Gross margin %	19.2	% 20.7	%		

	Nine Months Ended September 30,		Dollar Change	Percentage Change	
	2015	2014			
Cost of revenues	\$370,232	\$331,666	\$38,566	11.6	%
Gross margin %	19.0	% 19.5	%		

Cost of revenues increased \$19.0 million, or 14.2%, for the three months ended September 30, 2015 and increased \$38.6 million, or 11.6%, for the nine months ended September 30, 2015 compared to the same periods of 2014, respectively, primarily due to the increase in revenues described above. Gross margin percentage decreased to 19.2% for the three months ended September 30, 2015 compared to 20.7% for the same period of 2014 primarily due to a higher proportion of project revenues which typically have a lower gross margin. Gross margin percentage was 19.0% for the nine months ended September 30, 2015 compared to 19.5% for the same period of 2014 primarily due to an unfavorable mix of lower margin projects in our U.S. Federal segment and cost budget revisions on a significant project in our Canada segment, which resulted in a reduction in project to date revenues recognized and a reserve for potential future losses on the project recorded during the three months ended March 31, 2015.

As a result of certain acquisitions, we have intangible assets related to customer contracts; these are amortized over a period of approximately one to five years from the respective date of acquisition. This amortization is recorded as a cost of revenues in the consolidated statements of income (loss). For the three months ended September 30, 2015 and 2014, we recorded amortization expense of \$0.2 million and \$0.5 million, respectively, related to customer contracts. For the nine months ended September 30, 2015 and 2014, we recorded amortization expense of \$0.7 million and \$1.1 million, respectively, related to customer contracts.

## Selling, General and Administrative Expenses

The following tables set forth a comparison of our selling, general and administrative expenses for the periods presented (in thousands):

	Three Months Ended September 30,		Dollar Change	Percentage Change	
	2015	2014			
Selling, general and administrative expenses	\$26,623	\$25,800	\$823	3.2	%

	Nine Months Ended September 30,		Dollar Change	Percentage Change	
	2015	2014			
Selling, general and administrative expenses	\$76,506	\$74,293	\$2,213	3.0	%

Selling, general and administrative expenses increased \$0.8 million, or 3.2%, for the three months ended September 30, 2015 primarily due to an increase in project development costs in our U.S. Regions segment related to an increase in new project proposals. Selling, general and administrative expenses increased \$2.2 million, or 3.0%, for the nine months ended September 30, 2015 compared to the same periods of 2014, respectively, primarily as a result of the increase in project development costs described above and the full period impact from our prior year acquisitions. Amortization expense of intangible assets related to customer relationships, non-compete agreements, technology and trade names is included in selling, general and administrative expenses in the consolidated statements of income (loss). For the three months ended September 30, 2015 and 2014, we recorded amortization expense, related to these intangible assets, of \$0.8 million and \$0.9 million, respectively. For the nine months ended September 30, 2015 and



2014, we recorded amortization expense, related to these intangible assets, of \$2.4 million and \$2.1 million, respectively.

Table of Contents

## Other Expenses, Net

Other expenses, net includes gains and losses from derivatives, interest income and expenses, amortization of deferred financing costs, net and foreign currency transaction gains and losses. Other expenses, net, decreased \$0.3 million for the three months ended September 30, 2015 compared to the same period of 2014 primarily due to a decrease in amortization of deferred financing costs. Other expenses, net, increased \$1.2 million for the nine months ended September 30, 2015 compared to the same period of 2014 primarily due to an increase in foreign currency exchange losses.

## Income Before Taxes

Income before taxes increased \$0.8 million, or 11.3%, to \$7.5 million for the three months ended September 30, 2015 from \$6.8 million for the same period of 2014 due to the reasons described above. Income before taxes increased \$2.9 million, or 239.4%, to \$4.2 million for the nine months ended September 30, 2015 from \$1.2 million for the same period of 2014 due to the reasons described above.

## Provision (Benefit) from Income Taxes

The provision for income taxes was \$3.3 million for the three months ended September 30, 2015, compared to a benefit of \$0.5 million for the three months ended September 30, 2014. The provision for income taxes was \$2.2 million for the nine months ended September 30, 2015, compared to a benefit of \$0.5 million for the same period of 2014. The estimated annual effective tax rate applied for the three months ended September 30, 2015 was 44.4% compared to (7.9)% for the three months ended September 30, 2014. The estimated annual effective tax rate applied for the nine months ended September 30, 2015 was 52.5% compared to (40.8)% for the same period of 2014. The increase in the rate compared to the same periods in the prior year was due to an increase in profit before tax and an increase in the valuation allowance for losses expected in Canada during 2015 as well as a decrease in the amount of investment tax credits on energy efficiency projects placed or expected to be placed in service in 2015 as compared to 2014 and the expiration of the tax deduction under Internal Revenue Code Section 179D as of December 31, 2014. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2015 were the effects of the valuation allowance required for the expected Canada losses as well as the investment tax credits and production tax credits to which we are entitled from plants we own. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2014 were the effects of the investment tax credits and production tax credits to which we are entitled from plants we own.

The investment tax credits to which we are entitled fluctuate from year to year based on the cost of the renewable energy plants that we place or expect to place in service in that year. In addition, the tax deduction under Internal Revenue Code Section 179D expired as of December 31, 2014 and, therefore, there are no 179D deductions reflected within our tax rate for any of our 2015 periods. If the provision for the 179D deduction is extended, the amount of the deduction to which we would be entitled would vary in accordance with the number of qualifying projects completed during the year and any impact on our effective tax rate would further depend on the magnitude of the available deduction.

## Net Income (Loss) and Earnings (Loss) Per Share

Net income decreased \$3.1 million, or 42.7%, to \$4.2 million for the three months ended September 30, 2015 from \$7.3 million for the same period of 2014. Net income improved \$0.3 million to \$2.0 million for the nine months ended September 30, 2015 from \$1.7 million for the same period of 2014 due to the reasons described above.

Basic and diluted earnings per share for the three months ended September 30, 2015 were \$0.09, a decrease of \$0.07, or 43.8%, compared to the same period of 2014. Basic and diluted loss per share for the nine months ended September 30, 2015 and 2014 were \$0.04 per share.

## Business Segment Analysis (in thousands)

We report results under ASC 280, Segment Reporting. Our reportable segments are U.S. Regions, U.S. Federal, Canada and Small-Scale Infrastructure. Our U.S. Regions, U.S. Federal and Canada segments offer energy efficiency products and services, which include the design, engineering and installation of equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure; renewable energy solutions and services, which include the construction of small-scale plants for customers that produce electricity, gas, heat or

cooling from renewable sources of energy; and operations and maintenance (“O&M”) services. Our Small-Scale Infrastructure segment sells electricity, processed landfill gas, heat or cooling produced from renewable sources of energy from small-scale plants that we own. The “All Other” category offers enterprise energy management services, consulting services and the sale and installation of solar photovoltaic energy

Table of Contents

products and systems (“integrated-PV”). These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments.

## U.S. Regions

	Three Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$105,163	\$79,217	\$25,946	32.8	%
Income before taxes	\$9,955	\$7,468	\$2,487	33.3	%

	Nine Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$225,643	\$180,863	\$44,780	24.8	%
Income before taxes	\$17,203	\$12,746	\$4,457	35.0	%

Revenues for our U.S. Regions segment increased \$25.9 million, or 32.8%, to \$105.2 million for the three months ended September 30, 2015 and increased \$44.8 million, or 24.8%, to \$225.6 million for the nine months ended September 30, 2015, compared to the same periods of 2014, respectively, primarily due to an increase in the size of active projects.

Income before taxes for our U.S. Regions segment increased \$2.5 million, or 33.3%, to \$10.0 million for the three months ended September 30, 2015 and increased \$4.5 million, or 35.0%, to \$17.2 million for the nine months ended September 30, 2015 compared to the same period of 2014, respectively, primarily due to the increase in revenues described above, which resulted in improved operating leverage, partially offset by an increase in project development costs.

## U.S. Federal

	Three Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$35,491	\$27,600	\$7,891	28.6	%
Income before taxes	\$4,331	\$4,953	\$(622)	(12.6)	)%

	Nine Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$90,071	\$66,257	\$23,814	35.9	%
Income before taxes	\$12,633	\$8,542	\$4,091	47.9	%

Revenues for our U.S. Federal segment increased \$7.9 million, or 28.6%, to \$35.5 million for the three months ended September 30, 2015 and increased \$23.8 million, or 35.9%, to \$90.1 million for the nine months ended September 30, 2015 compared to the same periods of 2014, respectively, primarily due to an increase in the number of active projects.

Income before taxes for our U.S. Federal segment decreased \$0.6 million, or 12.6%, to \$4.3 million for the three months ended September 30, 2015 compared to the same period of 2014 primarily due to a reduction in warranty reserves in the prior year period, partially offset by the increase in revenue year-over-year described above. Income before taxes for our U.S. Federal segment increased \$4.1 million, or 47.9%, to \$12.6 million for the nine months ended September 30, 2015 compared to the same period of 2014 primarily due to the increase in revenues described above as well as higher O&M related costs in 2014 that were not repeated in the current year.



Table of Contents

## Canada

	Three Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$12,931	\$21,776	\$ (8,845)	) (40.6	)%
Loss before taxes	\$(1,660	) \$(289	) \$(1,371	) 474.4	%

	Nine Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$37,663	\$57,843	\$ (20,180)	) (34.9	)%
Loss before taxes	\$(7,238	) \$(3,336	) \$(3,902	) 117.0	%

Revenues for our Canada segment decreased \$8.8 million, or 40.6%, to \$12.9 million for the three months ended September 30, 2015 compared to the same period of 2014, primarily due to the timing of revenue recognized as a result of the size and phase of active projects and unfavorable foreign exchange rate fluctuations. Revenues for our Canada segment decreased \$20.2 million, or 34.9%, to \$37.7 million for the nine months ended September 30, 2015 compared to the same period of 2014, primarily due to unfavorable foreign exchange rate fluctuations and cost budget revisions, during the first quarter of 2015, on a significant project which resulted in a reduction in project to date revenues recognized compared to the same period in 2014.

Loss before taxes for our Canada segment increased \$1.4 million to a loss of \$1.7 million for the three months ended September 30, 2015 compared to the same period of 2014 primarily due to a decrease in selling, general and administrative expenses as a result of restructuring undertaken in 2014. Loss before taxes for our Canada segment increased \$3.9 million to a loss of \$7.2 million for the nine months ended September 30, 2015 compared to the same period of 2014. The increase in the loss before taxes was primarily due to the cost budget revisions, which resulted in a \$2.0 million loss, together with a \$1.1 million reserve for potential future losses, on the significant project described above and an unfavorable mix of lower margin projects.

## Small-Scale Infrastructure

	Three Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$14,681	\$13,954	\$727	5.2	%
Income before taxes	\$2,992	\$1,372	\$1,620	118.1	%

	Nine Months Ended September 30,		Dollar	Percentage	
	2015	2014	Change	Change	
Revenues	\$42,059	\$39,309	\$2,750	7.0	%
Income before taxes	\$6,619	\$5,187	\$1,432	27.6	%

Revenues for our Small-Scale Infrastructure segment increased \$0.7 million, or 5.2%, to \$14.7 million for the three months ended September 30, 2015 and increased \$2.8 million, or 7.0%, to \$42.1 million for the nine months ended September 30, 2015 compared to the same periods of 2014, respectively, primarily due to an increase in the number of plants fully operational during the three and nine months ended September 30, 2015, as compared to the same periods of 2014.

Income before taxes for our Small-Scale Infrastructure segment increased \$1.6 million to \$3.0 million for the three months ended September 30, 2015 primarily due to the increase in revenues described above and revisions to our property tax estimates resulting in a cumulative decrease in accrued costs. Income before taxes for our Small-Scale Infrastructure segment increased \$1.4 million to \$6.6 million for the nine months ended September 30, 2015 compared to the same periods of 2014 primarily due to the increase in revenues and property tax estimates, both described

above, partially offset by a decrease in unrealized gains on interest rate swaps.

35

---

Table of Contents

## All Other &amp; Unallocated Corporate Activity

	Three Months Ended September 30,		Dollar	Percentage
	2015	2014	Change	Change
Revenues	\$20,876	\$26,344	\$ (5,468)	(20.8)%
(Loss) income before taxes	\$ (1,854)	\$99	\$ (1,953)	(1,972.7)%
Unallocated corporate activity	\$ (6,243)	\$ (6,844)	\$601	(8.8)%

	Nine Months Ended September 30,		Dollar	Percentage
	2015	2014	Change	Change
Revenues	\$61,628	\$67,908	\$ (6,280)	(9.2)%
Loss before taxes	\$ (5,405)	\$ (64)	\$ (5,341)	(8,345.3)%
Unallocated corporate activity	\$ (19,644)	\$ (21,847)	\$2,203	(10.1)%

Revenues not allocated to segments and presented as all other decreased \$5.5 million, or 20.8%, to \$20.9 million for the three months ended September 30, 2015 compared to the same period of 2014 primarily due to decreases in integrated-PV sales and service offerings to private sector commercial and industrial (“C&I”) customers. Revenues not allocated to segments and presented as all other decreased \$6.3 million, or 9.2%, to \$61.6 million for the nine months ended September 30, 2015 compared to the same period of 2014 primarily due to decreases in integrated-PV sales and service offerings to C&I customers, partially offset by the year to date impact from our prior year acquisitions.

Income (loss) before taxes not allocated to segments and presented as all other decreased \$2.0 million to a loss of \$1.9 million for the three months ended September 30, 2015 and decreased \$5.3 million to a loss of \$5.4 million for the nine months ended September 30, 2015 compared to the same periods of 2014 primarily due to the decrease in revenues described above and an increase in selling, general and administrative expenses, including salaries and amortization of acquired intangible assets, as a result of our prior year acquisitions.

Unallocated corporate activity includes all corporate level selling, general and administrative expenses and other expenses not allocated to the segments. We do not allocate any indirect expenses to the segments.

Unallocated corporate activity decreased \$2.2 million to \$19.6 million for the nine months ended September 30, 2015 compared to the same period of 2014 primarily due to a decrease in stock compensation expense and severance charges and acquisition related business development costs incurred during the first quarter of 2014 which were not repeated in 2015.

## Liquidity and Capital Resources

Sources of liquidity. Since inception, we have funded operations primarily through cash flow from operations, advances from Federal ESPC projects and various forms of debt. We believe that available cash and cash equivalents and availability under our revolving senior secured credit facility, combined with our access to credit markets, will be sufficient to fund our operations through 2015 and thereafter.

Proceeds from our Federal ESPC projects are generally received through agreements to sell the ESPC receivables related to certain ESPC contracts to third-party investors. We use the advances from the investors under these agreements to finance the projects. Until recourse to us ceases for the ESPC receivables transferred to the investor, upon final acceptance of the work by the Government customer, we are the primary obligor for financing received.

The transfers of receivables under these agreements do not qualify for sales accounting until final customer acceptance of the work, so the advances from the investors are not classified as operating cash flows. Cash draws that we receive under these ESPC agreements are recorded as financing cash inflows. The use of the cash received under these arrangements to pay project costs is classified as operating cash flows. Due to the manner in which the ESPC contracts with the third-party investors are structured, our reported operating cash flows are materially impacted by the fact that operating cash flows only reflect the ESPC contract expenditure outflows and do not reflect any inflows from the corresponding contract revenues. Upon acceptance of the project by the federal customer the ESPC receivable and corresponding ESPC liability are removed from our consolidated balance sheet as a non-cash



settlement. See Note 2, “Summary of Significant Accounting Policies”, to our Notes to Condensed Consolidated Financial Statements appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q.

As a result of the structure of the Federal ESPC project arrangements management uses adjusted cash from operations, as previously defined, as a measure of liquidity because it captures all sources of cash associated with our revenues generated by

Table of Contents

operations. Adjusted cash from operations for the nine months ended September 30, 2015 and 2014 was \$27.9 million and \$20.8 million, respectively.

Our service offering also includes the development, construction and operation of small-scale renewable energy plants. Small-scale renewable energy projects, or project assets, can either be developed for the portfolio of assets that we own and operate or designed and built for customers. Expenditures related to projects that we own are recorded as cash outflows from investing activities. Expenditures related to projects that we build for customers are recorded as cash outflows from operating activities as cost of revenues.

The amount of interest capitalized relating to construction financing during the period of construction for the nine months ended September 30, 2015 and 2014 was \$0.5 million and \$0.4 million, respectively.

Cash flows from operating activities. Operating activities used \$33.9 million of net cash during the nine months ended September 30, 2015. During that period, we had net income of \$2.0 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$16.8 million. Increases in accounts payable and accrued expenses and income taxes payable provided \$26.1 million. These were offset by increases in restricted cash, accounts receivable, including retainage, inventory, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net, prepaid expenses and other current assets, project development costs and other assets and decreases in other liabilities, which used \$28.2 million in cash. An increase in Federal ESPC receivables used an additional \$50.6 million. As described above, Federal ESPC operating cash flows only reflect the ESPC expenditure outflows and do not reflect any inflows from the corresponding contract revenues, which are recorded as cash inflows from financing activities due to the timing of the receipt of cash related to the assignment of the ESPC receivables to the third-party investors.

Operating activities used \$12.1 million of net cash during the nine months ended September 30, 2014. During that period, we had net income of \$1.7 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$21.2 million. Increases in restricted cash, accounts receivable including retainage, project development costs and other assets and decreases in accounts payable and accrued expenses, other liabilities and income taxes payable, which used \$23.3 million. These were partially offset by decreases in inventory, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net and prepaid expenses and other current assets, which provided \$21.6 million in cash. An increase in Federal ESPC receivables used an additional \$33.4 million.

Cash flows from investing activities. Cash flows from investing activities during the nine months ended September 30, 2015 used \$30.1 million. We invested \$29.9 million on purchases of project assets during the nine months ended September 30, 2015. We plan to invest an additional \$30 million to \$35 million on capital expenditures, principally for renewable energy plants, for the remainder of 2015. In addition, we invested \$1.0 million in purchases of other property and equipment. These outflows were partially offset by \$0.9 million in proceeds from the sale of a project asset in our Canada segment.

Cash flows from investing activities during the nine months ended September 30, 2014 used \$28.3 million.

Development of our renewable energy plants used \$16.5 million. In addition, we invested \$1.6 million in purchases of other property and equipment and \$13.9 million was used for acquisitions. Partially offsetting these amounts was \$3.7 million related to Section 1603 grants received during the period. See Note 2, "Summary of Significant Accounting Policies", to our Notes to Condensed Consolidated Financial Statements for further discussion on Section 1603 grants.

Cash flows from financing activities. Cash flows from financing activities during the nine months ended September 30, 2015 provided \$58.5 million. This was primarily due to \$7.6 million received under our sale-leaseback financing arrangement, proceeds from project financings of \$4.6 million and proceeds from exercises of options of \$0.6 million. This was partially offset by payments on long-term debt of \$9.1 million, \$5.0 million in net payments on our revolving credit facility and payments of financing fees of \$1.9 million. Proceeds from Federal ESPC projects provided \$61.8 million.

Cash flows from financing activities during the nine months ended September 30, 2014 provided \$45.3 million. This was primarily due to \$20.0 million in net draws on our revolving credit facility, a decrease in our investment in restricted cash of \$2.8 million and proceeds from the exercise of stock options of \$1.4 million. These was partially

offset by payments of long-term debt of \$13.9 million and payments of financing fees of \$0.4 million. Proceeds from Federal ESPC projects provided \$32.9 million.

Senior Secured Credit Facility — Revolver and Term Loan

On June 30, 2015, we entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extends our existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016.

Table of Contents

The revolving credit facility matures on June 30, 2020 and the term loan facility matures on June 30, 2018, when all amounts will be due and payable in full. We expect to use the new credit facility for our general corporate purposes, including permitted acquisitions, refinancing of existing indebtedness and working capital.

The credit facility consists of a \$60.0 million revolving credit facility and a \$17.1 million term loan. The amount of the term loan represents the amount outstanding under our existing term loan at closing. The revolving credit facility may be increased by up to an additional \$25.0 million at our option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20.0 million of the revolving credit facility may be borrowed in Canadian dollars, Euros and Pounds Sterling. We are the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of our direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of our and such of our subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries (as defined in the agreement). Immediately following the closing, and at September 30, 2015, there were no borrowings outstanding under the revolving credit facility and \$15.7 million outstanding under the term loan.

The interest rate for borrowings under the credit facility is based on, at our option, either (1) a base rate equal to a margin of 0.50% or 0.25%, depending on our ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50%, (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on our ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility. At September 30, 2015, the interest rate for borrowings under the revolving credit facility was 3.50% and interest rate for borrowings under the term loan was 2.08%. Interest on the term loan has been swapped into a fixed rate of 3.72%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1.4 million, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at our option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

The credit facility limits our ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; merge, liquidate or dispose of assets; make acquisitions or other investments; enter into hedging agreements; pay dividends and make other distributions and engage in transactions with affiliates, except in the ordinary course of business on an arms' length basis.

Under the credit facility, we may not invest cash or property in, or loan to, our non-core subsidiaries in aggregate amounts exceeding 49% of our consolidated stockholders' equity. In addition, under the credit facility, we and our core subsidiaries must maintain the following financial covenants:

- a ratio of total funded debt to EBITDA of less than 2.0 to 1.0; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

Any failure to comply with the financial or other covenants of the credit facility would not only prevent us from being able to borrow additional funds, but would constitute a default, permitting the lenders to, among other things, accelerate the amounts outstanding, including all accrued interest and unpaid fees, under the credit facility, to terminate the credit facility, and enforce liens against the collateral.

The credit facility also includes several other customary events of default, including a change in control, permitting the lenders to accelerate the indebtedness, terminate the credit facility, and enforce liens against the collateral.

As of September 30, 2015, we were in compliance with all of the financial and operational covenants in the senior credit facility. In addition, we do not consider it likely that we will fail to comply with these covenants for the next twelve months.

#### Project Financing

Construction and Term Loans. We have entered into a number of construction and term loan agreements for the purpose of constructing and owning certain renewable energy plants. The physical assets and the operating agreements related to the renewable energy plants are owned by wholly owned, single member special purpose subsidiaries. These construction and term loans are structured as project financings made directly to a subsidiary, and upon acceptance of

a project, the related construction loan converts into a term loan. While we are required under GAAP to reflect these loans as liabilities on our

Table of Contents

consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc. As of September 30, 2015, we had outstanding \$76.9 million in aggregate principal amount under these loans with maturities at various dates from 2017 to 2028. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 2.8% to 7.3%.

In September 2015, the Company entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar-PV projects currently under construction. The credit and guaranty agreement provides for a \$20,746 construction-to-term loan credit facility and bears interest at a variable rate. At September 30, 2015, \$5,199 was outstanding under the construction loan. The variable rate for this loan at September 30, 2015 was 2.8%. One loan with an outstanding balance as of September 30, 2015 totaling \$3.3 million, requires Ameresco, Inc. to provide assurance to the lender of the project performance. A second loan, entered into during 2012, with an outstanding balance as of September 30, 2015 of \$39.2 million requires Ameresco, Inc. to provide assurance to the lender of reimbursement upon any recapture of certain renewable energy Government cash grants upon the occurrence of events that cause the recapture of such grants. As of December 31, 2014, we had outstanding \$77.3 million in aggregate principal amount under these loans, bearing interest at rates ranging from 6.1% to 7.3% and maturing at various dates from 2017 to 2028.

These construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of September 30, 2015 we were in compliance with all of these financial and operational covenants. In addition, we do not consider it likely that we will fail to comply with these covenants during the term of these agreements.

Federal ESPC Liabilities. We have arrangements with certain lenders to provide advances to us during the construction or installation of projects for certain customers, typically federal governmental entities, in exchange for our assignment to the lenders of our rights to the long-term receivables arising from the ESPCs related to such projects. These financings totaled \$106.4 million and \$70.9 million in principal amounts at September 30, 2015 and December 31, 2014, respectively. Under the terms of these financing arrangements, we are required to complete the construction or installation of the project in accordance with the contract with our customer, and the debt remains on our consolidated balance sheets until the completed project is accepted by the customer.

Table of Contents

Sale-Leaseback. During the first quarter of 2015, we entered into an agreement with an investor which gives us the option to sell and contemporaneously lease back solar photovoltaic (“solar-PV”) projects that reach commercial operation on or before December 31, 2015 up to a maximum combined funding amount of \$50.0 million. During the quarter ended March 31, 2015 we sold two solar-PV projects and in return received \$7.6 million as part of this arrangement. No projects were sold under the agreement during the quarter ended September 30, 2015. While we are required under GAAP to reflect these lease payments as liabilities on our consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc., except that Ameresco, Inc. has guaranteed certain obligations relating to taxes and project warranties, operation and maintenance.

Under sale-leaseback structures, we generate cash upfront through the sale of a solar-PV project to the investor. We then lease the project back from the investor and retain responsibility for operating and maintaining the project. The revenues generated through the sale of the electricity to the power purchase agreement counterparty plus the revenues generated through the sale of the solar renewable energy credits are utilized to make the lease payments and operating and maintenance payments and fund the required reserves. Excess revenue is distributed to us. In addition to the lease payments, the investor also receives the value attributable to the applicable investment tax credits and accelerated depreciation. At the end of the lease term, we have the option to purchase the solar-PV projects from the investor for the then fair market value or, in certain circumstances, extend the lease. We treat the cash received from the sale as financing cash inflows, defer any gain or loss realized on the sale of the asset to the investor and record, if appropriate, capital lease assets and corresponding liabilities related to the leaseback payment obligations on our consolidated balance sheets.

**Contractual Obligations**

The following table summarizes our significant contractual obligations and commitments as of September 30, 2015 (in thousands):

	Payments due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
<b>Senior Secured Credit Facility:</b>					
Revolver	\$—	\$—	\$—	\$—	\$—
Term Loan	15,714	5,714	10,000	—	—
<b>Project Financing:</b>					
Construction and term loans	76,946	6,369	14,738	41,334	14,505
Federal ESPC liabilities(1)	106,401	—	106,401	—	—
Interest obligations(2)	31,961	5,179	8,246	6,002	12,534
Capital lease liabilities	3,576	308	890	988	1,390
Operating leases	10,959	3,832	5,535	1,560	32
<b>Total</b>	<b>\$245,557</b>	<b>\$21,402</b>	<b>\$145,810</b>	<b>\$49,884</b>	<b>\$28,461</b>

Federal ESPC arrangements relate to the installation and construction of projects for certain customers, typically federal governmental entities, where we assign to the third-party lenders our right to customer receivables. We are relieved of the liability when the project is completed and accepted by the customer. We typically expect to

(1 ) be relieved of the liability between one and three years from the date of project construction commencement.

The table does not include, for our Federal ESPC liability arrangements, the difference between the aggregate amount of the long-term customer receivables sold by us to the lender and the amount received by us from the lender for such sale.

(2 ) For both the revolver and term loan portion of our senior secured credit facility, the table above assumes that the variable interest rate in effect at September 30, 2015 remains constant for the term of the facility.

**Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing

transactions that are not required to be reflected on our balance sheet.

40

---



Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2015, there have been no significant changes in market risk exposures that materially affected the quantitative and qualitative disclosures as described in Item 7A to our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report, or the evaluation date. Disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, after evaluating the effectiveness of our disclosure controls and procedures as of the evaluation date, concluded that as of the evaluation date, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary conduct of our business we are subject to periodic lawsuits, investigations and claims. Although we cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims against us, we do not believe that any currently pending or threatened legal proceedings to which we are a party will have a material adverse effect on our business, results of operations or financial condition.

For additional information about certain proceedings, please refer to Note 5, "Commitments and Contingencies", to our Condensed Consolidated Financial Statements included included under Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Item 1A. Risk Factors

As of September 30, 2015, there have been no material changes to the risk factors described in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed (other than exhibit 32.1) as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AMERESCO, INC.

Date: November 5, 2015

By: /s/ John R. Granara, III

John R. Granara, III

Vice President and Chief Financial Officer

(duly authorized and principal financial officer)

Table of Contents

Exhibit Index

Exhibit Number	Description
31.1*	Principal Executive Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Principal Financial Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following condensed consolidated financial statements from Ameresco, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements. *Filed herewith. **Furnished herewith.