

Ameresco, Inc.  
Form 10-Q  
November 06, 2017  
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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, 2017

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 04-3512838  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

111 Speen Street, Suite 410 01701

Framingham, Massachusetts  
(Address of Principal Executive Offices) (Zip Code)

(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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company

Emerging growth company  (Do not check if a smaller reporting company)

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

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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.

Class	Shares outstanding as of November 1, 2017
Class A Common Stock, \$0.0001 par value per share	27,503,502
Class B Common Stock, \$0.0001 par value per share	18,000,000

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AMERESCO, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017  
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## 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, 2017 (Unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 29,559	\$ 20,607
Restricted cash	15,789	12,299
Accounts receivable, net	64,230	85,354
Accounts receivable retainage, net	17,447	17,465
Costs and estimated earnings in excess of billings	82,647	56,914
Inventory, net	8,602	12,104
Prepaid expenses and other current assets	13,836	11,732
Income tax receivable	521	406
Project development costs	12,584	9,180
Total current assets	245,215	226,061
Federal ESPC receivable	210,472	158,209
Property and equipment, net	4,830	5,018
Energy assets, net	357,155	319,758
Goodwill	56,107	57,976
Intangible assets, net	2,801	3,931
Other assets	27,065	26,328
Total assets	\$ 903,645	\$ 797,281
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portions of long-term debt and capital lease liabilities	\$ 24,155	\$ 19,292
Accounts payable	122,731	126,583
Accrued expenses and other current liabilities	23,203	22,763
Billings in excess of cost and estimated earnings	17,772	21,189
Income taxes payable	2,849	775
Total current liabilities	190,710	190,602
Long-term debt and capital lease liabilities, less current portions and net of deferred financing fees	178,142	140,593
Federal ESPC liabilities	188,422	133,003
Deferred income taxes, net	2,855	9,037
Deferred grant income	7,326	7,739
Other liabilities	16,666	15,154
Commitments and contingencies (Note 6)		
Redeemable non-controlling interests	7,532	6,847



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

## CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2017 and December 31, 2016	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 29,331,715 shares issued and 27,503,502 shares outstanding at September 30, 2017, 29,005,284 shares issued and 27,706,866 shares outstanding at December 31, 2016	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, 2017 and December 31, 2016	2	2
Additional paid-in capital	115,461	112,926
Retained earnings	212,033	194,353
Accumulated other comprehensive loss, net	(6,091	) (6,591 )
Less - treasury stock, at cost, 1,828,213 shares at September 30, 2017 and 1,298,418 shares at December 31, 2016	(9,416	) (6,387 )
Total stockholders' equity	311,992	294,306
Total liabilities, redeemable non-controlling interests and stockholders' equity	\$ 903,645	\$ 797,281

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



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## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues	\$204,744	\$180,598	\$506,019	\$477,002
Cost of revenues	163,377	141,803	403,320	378,675
Gross profit	41,367	38,795	102,699	98,327
Selling, general and administrative expenses	27,027	28,852	80,164	81,880
Operating income	14,340	9,943	22,535	16,447
Other expenses, net	1,668	2,268	5,232	4,961
Income before provision for income taxes	12,672	7,675	17,303	11,486
Income tax provision	3,881	1,865	4,296	2,872
Net income	8,791	5,810	13,007	8,614
Net (income) loss attributable to redeemable non-controlling interests	(298)	(95)	673	149
Net income attributable to common shareholders	\$8,493	\$5,715	\$13,680	\$8,763
Net income per share attributable to common shareholders:				
Basic	\$0.19	\$0.12	\$0.30	\$0.19
Diluted	\$0.19	\$0.12	\$0.30	\$0.19
Weighted average common shares outstanding:				
Basic	45,524,041	46,360,575	45,500,476	46,606,494
Diluted	45,770,568	46,430,163	45,663,784	46,669,036

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

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## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended September 30,	
	2017	2016
Net income	\$8,791	\$5,810
Other comprehensive income (loss):		
Unrealized gain from interest rate hedge, net of tax benefit (provision) of \$3 and \$(100), respectively	62	398
Foreign currency translation adjustments	185	(99 )
Total other comprehensive income	247	299
Comprehensive income	9,038	6,109
Comprehensive income attributable to redeemable non-controlling interests	(298 )	(95 )
Comprehensive income attributable to common shareholders	\$8,740	\$6,014
	Nine Months Ended September 30,	
	2017	2016
Net income	\$13,007	\$8,614
Other comprehensive income (loss):		
Unrealized loss from interest rate hedge, net of tax benefit of \$150 and \$1,256, respectively	(67 )	(2,227 )
Foreign currency translation adjustments	567	(1,458 )
Total other comprehensive income (loss)	500	(3,685 )
Comprehensive income	13,507	4,929
Comprehensive loss attributable to redeemable non-controlling interests	673	149
Comprehensive income attributable to common shareholders	\$14,180	\$5,078

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

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## AMERESCO, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(in thousands, except share amounts)

(Unaudited)

	Redeemable		Class B		Additional		Accumulated		Total		
	Non-Controlling Interests	Class A Common Stock Shares	Class B Common Stock Shares	Common Stock	Paid-in Capital	Retained Earnings	Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Stockholders' Equity	
Balance, December 31, 2016	\$6,847	27,706,866	\$3	18,000,000	\$2	\$112,926	\$194,353	\$(6,591)	1,298,418	\$(6,387)	\$294,306
Cumulative impact from the adoption of ASU No. 2016-09 (Note 2)	—	—	—	—	—	—	4,000	—	—	—	4,000
Exercise of stock options	—	326,431	—	—	—	1,559	—	—	—	—	1,559
Stock-based compensation expense	—	—	—	—	—	976	—	—	—	—	976
Open market purchase of common shares	—	(529,795 )	—	—	—	—	—	—	529,795	(3,029 )	(3,029 )
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	—	(67 )	—	—	(67 )
Foreign currency translation adjustment	—	—	—	—	—	—	—	567	—	—	567
Contributions from redeemable non-controlling interests	1,583	—	—	—	—	—	—	—	—	—	—
Distributions to redeemable non-controlling interests, net	(225 )	—	—	—	—	—	—	—	—	—	—
Net (loss) income	(673 )	—	—	—	—	—	13,680	—	—	—	13,680
	\$7,532	27,503,502	\$3	18,000,000	\$2	\$115,461	\$212,033	\$(6,091)	1,828,213	\$(9,416)	\$311,992

Balance,  
September 30,  
2017

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

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$13,007	\$8,614
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation of energy assets	15,822	14,139
Depreciation of property and equipment	1,931	2,300
Amortization of deferred financing fees	1,194	994
Amortization of intangible assets	1,082	1,793
Provision for bad debts	68	5,137
Gain on sale of assets	(104)	—
Unrealized gain on ineffectiveness of interest rate swaps	(206)	(227)
Stock-based compensation expense	976	1,086
Deferred income taxes	(2,139)	(344)
Unrealized foreign exchange gain	(1,494)	(277)
Changes in operating assets and liabilities:		
Restricted cash	(154)	(4,592)
Accounts receivable	22,599	(7,136)
Accounts receivable retainage	308	(403)
Federal ESPC receivable	(119,093)	(83,431)
Inventory, net	3,503	(165)
Costs and estimated earnings in excess of billings	(24,403)	28,119
Prepaid expenses and other current assets	(2,271)	(3,292)
Project development costs	(4,028)	838
Other assets	55	(137)
Accounts payable, accrued expenses and other current liabilities	4,772	(1,225)
Billings in excess of cost and estimated earnings	(4,283)	(9,510)
Other liabilities	(255)	(2,005)
Income taxes payable	2,357	2,348
Cash flows from operating activities	(90,756)	(47,376)
Cash flows from investing activities:		
Purchases of property and equipment	(1,922)	(2,696)
Purchases of energy assets	(68,736)	(45,205)
Proceeds from sale of assets of a business	2,777	—
Acquisitions, net of cash received	(2,409)	—
Cash flows from investing activities	\$(70,290)	\$(47,901)
The accompanying notes are an integral part of these condensed consolidated financial statements.		



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## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from financing activities:		
Payments of financing fees	\$(2,024 )	\$(1,266 )
Proceeds from exercises of options	1,559	969
Repurchase of common stock	(3,029 )	(4,451 )
Proceeds from senior secured credit facility, net	12,847	7,501
Proceeds from long-term debt financings	48,885	7,803
Proceeds from Federal ESPC projects	122,340	65,075
Proceeds from sale-leaseback financings	30,611	17,045
Proceeds from investment by redeemable non-controlling interests, net	1,358	6,456
Restricted cash	(2,143 )	2,952
Payments on long-term debt	(40,228 )	(9,246 )
Cash flows from financing activities	170,176	92,838
Effect of exchange rate changes on cash	(178 )	(849 )
Net increase (decrease) in cash and cash equivalents	8,952	(3,288 )
Cash and cash equivalents, beginning of period	20,607	21,645
Cash and cash equivalents, end of period	\$29,559	\$18,357
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$8,152	\$4,956
Cash paid for income taxes	\$4,432	\$2,940
Non-cash Federal ESPC settlement	\$66,830	\$79,075
Accrued purchases of energy assets	\$9,414	\$15,869

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

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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 and Europe. 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 energy assets; and 3) direct payment for PV equipment and systems.

The condensed consolidated financial statements as of September 30, 2017, and for the three and nine months ended September 30, 2017 and 2016, are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, normal recurring adjustments necessary for a fair presentation in conformity with accounting principles generally accepted in the United States (“GAAP”) of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The December 31, 2016 consolidated balance sheet data was derived from audited financial statements, but certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. 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, 2016, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 3, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company, its subsidiaries in which the Company has a controlling financial interest and investment funds formed to fund the purchase of solar energy systems, which are consolidated as variable interest entities (“VIE”). The Company uses a qualitative approach in assessing the consolidation requirement for VIEs. This approach focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE’s economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. For all periods presented, the Company has determined that it is the primary beneficiary in all of its operational VIEs. The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Gains and losses from the translation of all foreign currency financial statements are recorded in accumulated other comprehensive loss, net, within stockholders’ equity. 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, realization of project development costs, fair value of derivative financial instruments, accounting for business acquisitions, stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and 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 2017 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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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 its fair value measured using level 1 inputs per the fair value hierarchy as defined in Note 7.

**Restricted Cash**

Restricted cash consists of cash and cash equivalents held in an escrow account in association with construction draws for energy savings performance contracts ("ESPC"), construction of energy 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 its fair value measured using level 1 inputs per the fair value hierarchy as defined in Note 7. 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, 2017 and December 31, 2016, the Company classified the non-current portion of restricted cash of \$19,396 and \$19,920, 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,	
	2017	2016
Allowance for doubtful accounts, beginning of period	\$7,836	\$3,729
Charges to costs and expenses	68	4,057
Account write-offs and other	(4,088)	195
Allowance for doubtful accounts, end of period	\$3,816	\$7,981

During the three months ended March 31, 2016, the Company reserved for certain assets related to a customer who declared bankruptcy. A portion of this amount, \$200 was recorded as an allowance for doubtful accounts in accounts receivable, net. In addition, the Company recorded a \$476 charge to write-off costs and estimated earnings in excess of billings and a \$325 charge for project costs incurred. During the three months ended September 30, 2016, the Company reserved for an additional \$2,194 as an allowance for doubtful accounts in accounts receivable, net, related to the customer who declared bankruptcy. During the three months ended June 30, 2017, a settlement was reached with the customer who declared bankruptcy, and the Company has no additional exposure for the remaining receivables. During the three months ended June 30, 2016, the Company also reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts. This reserve included \$1,655 for doubtful accounts in accounts receivable, net and \$279 reserved against accounts receivable retainage, net.

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. As of September 30, 2017 and December 31, 2016, \$422 and \$887, respectively, was recorded by the Company as a reserve for accounts receivable retainage for amounts determined to be potentially uncollectible.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## 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 net realizable value (determined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation). 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. 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 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

## Energy Assets

Energy 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. These amounts are capitalized and amortized to cost of revenues in the Company’s consolidated statements of income 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 energy 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 on a straight line basis over the useful life of the associated energy asset. There was \$925 and \$289 in interest capitalized for the three months ended September 30, 2017 and 2016, respectively. There was \$3,452 and \$616 in interest capitalized for the nine months ended September 30, 2017 and 2016, respectively.

Routine maintenance costs are expensed in the current year's consolidated statements of income 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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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.

Included in energy assets are capital lease assets and accumulated depreciation of capital lease assets. Capital lease assets consist of the following:

	As of September 30, 2017	As of December 31, 2016
Capital lease assets	\$ 30,430	\$ 15,640
Less - accumulated depreciation and amortization	(1,630 )	(744 )
Capital lease assets, net	\$ 28,800	\$ 14,896

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 has applied for and received 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 energy 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.

The Company did not receive any Section 1603 grants during the nine months ended September 30, 2017 or September 30, 2016. No further Section 1603 grant payments are expected to be received as the program has expired. 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 \$7,326 and \$7,739 recorded in the accompanying consolidated balance sheets as of September 30, 2017 and December 31, 2016, 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 and construction loans, as discussed in Note 12, for which deferred financing fees are amortized on a straight-line basis over the term of the agreement. Deferred financing fees are presented on the consolidated balance sheets as a reduction to long-term debt and capital lease liabilities.

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 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.

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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.

Acquired intangible assets other than goodwill that are subject to amortization include customer contracts and customer relationships, as well as software/technology, trade names and non-compete agreements. The intangible assets are amortized over periods ranging from one to fifteen years from their respective acquisition dates.

See Note 4 for additional disclosures.

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 non-current portion of project development costs, accounts receivable retainages, sale-leaseback deferred loss and deferred contract costs. Other assets also include the fair value of derivatives.

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 based 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. As of September 30, 2017 and December 31, 2016, 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 sheets. 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.

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. In September 2016, the Company amended its agreement with the investor to provide for a maximum combined funding amount of \$100,000 through June 30, 2017 on certain projects. In May 2017, the Company amended its agreement with the investor to extend the end date of the agreement to June 30, 2018. Additionally, the Company sold and contemporaneously leased back one solar PV project to a separate investor, not a party to the master lease agreement, under a new agreement during the three months ended March 31, 2017. See below for a summary of solar PV project sales by fiscal quarter under our sale-leaseback agreements:

Quarter Ended	# Solar PV Projects Sold	Sale Price	Deferred Gain Recorded	Deferred Loss Recorded	Capital Lease Asset/Liability Recorded	Initial Lease Term	Periodic Minimum Lease Payment	Periodic Maximum Lease Payment
1		6,037	333	—	3,158	25	2	397



September 30, 2016							
September 30, 2017	3	9,157,642	—	4,114	20	13	231

Certain lease agreements the Company is party to provide for the sale of solar PV projects to third-party investors and the simultaneous leaseback of the projects, which the Company then operates and maintains, recognizing revenue through the sale

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of the electricity and solar renewable energy credits (“SRECs”) 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 such agreements 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 such agreements 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 sheets 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 long term portion of any deferred gain or loss in other liabilities and other assets, respectively, and the current portion of any deferred gain and loss in accrued expenses and other current liabilities and prepaid expenses and other current assets, respectively, in its consolidated balance sheets and amortizes the deferred amounts over the lease term in cost of revenues in its consolidated statements of income. Amortization expense in cost of revenues related to deferred gains, net was \$(25) and \$(6) for the three months ended September 30, 2017 and 2016, respectively. Amortization expense in cost of revenues related to deferred gains, net was \$(49) and \$(37) for the nine months ended September 30, 2017 and 2016, respectively.

A summary of amounts related to sale leasebacks in the Company’s consolidated balance sheets is as follows:

	September 30, 2017	December 31, 2016
Capital lease assets, net	\$ 28,800	\$ 14,896
Deferred loss, short-term, net	109	53
Deferred loss, long-term, net	1,943	956
Capital lease liabilities, short-term	3,451	2,185
Capital lease liabilities, long-term	24,857	12,462
Deferred gain, short-term, net	195	89
Deferred gain, long-term, net	\$ 3,195	\$ 1,632

Other Liabilities

Other liabilities consist primarily of deferred revenue related to multi-year operation and maintenance contracts which expire at various dates through 2033. Other liabilities also include the fair value of derivatives and the long term portion of sale-leaseback deferred gains.

See Note 8 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.

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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.

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 revenues 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.

As of September 30, 2017, the Company has recorded as a reserve for future warranty obligations \$2,111.

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 project related 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

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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.

The Company has presented all deferred tax assets and liabilities as noncurrent on its consolidated balance sheet as of September 30, 2017 and December 31, 2016, respectively.

In the first quarter of 2017, as a result of adopting ASU 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting, the Company recorded a \$4,000 deferred tax asset and corresponding credit to retained earnings for excess tax benefits that had not previously been recognized because the related tax deductions had not reduced taxes payable.

See Note 5 for additional information on the Company's income taxes.

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.

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.

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, interest rate swaps, accounts payable, accrued expenses, capital lease assets and liabilities and short-term and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of September 30, 2017, the fair value of the Company's long-term debt exceeds its carrying value of \$202,297 by approximately \$110. 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 7.

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 7 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. Certain option grants have performance conditions that must be achieved prior to vesting and are expensed based on the expected achievement at each reporting period.

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

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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. Beginning in the year ended December 31, 2016, the Company uses historical volatility as the expected volatility assumption required in the Black-Scholes model. Prior to the year ended December 31, 2016, 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. Therefore, estimates of expected stock volatility were based on that of publicly traded peer companies.

The Company is required to recognize compensation expense for only the portion of options that are expected to vest. 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. As a result of the adoption of ASU 2016-09, no significant changes were made to the Company's accounting for forfeitures.

For the three months ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense of \$326 and \$328, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense of \$976 and \$1,086, respectively. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income based on the salaries and work assignments of the employees holding the options. As of September 30, 2017, there was \$2,852 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.6 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, 2017 or during the year ended December 31, 2016.

**Share Repurchase Program**

In April 2016, the Company's Board of Directors authorized the repurchase of up to \$10,000 of the Company's Class A common stock from time to time on the open market in privately negotiated transactions. In February 2017, the Company's Board of Directors authorized an increase in the Company's share repurchase authorization to \$15,000 of the Company's Class A common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. Any repurchased shares will be available for use in connection with its stock plans and for other corporate purposes. The repurchase program will be funded using the Company's working capital and borrowings under its revolving line of credit. The Company accounts for share repurchases using the cost method. Under this method, the cost of the share repurchase is recorded entirely in treasury stock, a contra equity account. During the three months ended September 30, 2017, the Company repurchased 108,971 shares of common stock in the amount of \$760, including fees of \$4. During the nine months ended September 30, 2017, the Company repurchased 529,795 shares of common stock in the amount of \$3,029, including fees of \$21. During the year ended December 31, 2016, the Company repurchased 1,298,418 shares of common stock in the amount of \$6,387, including fees of \$52.

**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.

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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.

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 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 3.74% 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.

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 covered an initial notional amount of \$38,571 variable rate note at a fixed interest rate of 1.965% and expired in June 2016. This interest rate swap had 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%, and expires in February 2023. The effective date of the interest rate swap was February 29, 2016. The underlying cash flows hedged have an initial principal balance of \$20,746 with an effective date of March 30, 2016. 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.

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In June 2017, the Company entered into a 10-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 \$14,100 variable rate note at a fixed interest rate of 2.29%, with an effective date of June 27, 2017, and expires in December 2027. The underlying cash flows hedged have an initial principal balance of \$14,100 with an effective date of June 22, 2017. This interest rate swap has been designated as a hedge since inception.

See Notes 7 and 8 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,	
	2017	2016	2017	2016
Net income attributable to common shareholders	\$8,493	\$ 5,715	\$13,680	\$ 8,763
Basic weighted-average shares outstanding	45,524,046	46,360,575	45,500,476	46,606,494
Effect of dilutive securities:				
Stock options	246,527	69,588	163,308	62,542
Diluted weighted-average shares outstanding	45,770,573	46,430,163	45,663,784	46,669,036

For the three months ended September 30, 2017 and 2016, 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 2,627,406 and 3,437,620. For the nine months ended September 30, 2017 and 2016, 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 2,605,425 and 3,437,620.

Variable Interest Entities

Certain contracts are executed jointly through partnership and joint venture arrangements with unrelated third parties. 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 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.

If the partnership or joint venture is also a VIE, the Company then 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 Interests**

In September 2015, the Company formed an investment fund 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. In June 2017, the Company formed a second investment fund 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 these agreements in order

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to finance the costs of constructing energy assets which are under long-term customer contracts. The Company has determined that these entities qualify as VIEs and that it is the primary beneficiary in the operational partnerships 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 subsidiaries as redeemable non-controlling interests in its condensed consolidated balance sheets.

The Company has determined that the provisions in the contractual arrangements represent substantive profit-sharing arrangements. The Company has further determined that the appropriate methodology for attributing income and loss to the redeemable non-controlling interests 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 interests in the consolidated statements of income reflect changes in the amounts the investors would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreements, assuming the net assets of this funding structure were 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 subsidiaries and the investors. The use of the HLBV methodology to allocate income to the redeemable non-controlling interest holders may create volatility in the Company's consolidated statements of income as the application of HLBV can drive changes in net income available and loss attributable to the redeemable non-controlling interests from quarter to quarter.

The Company classified the non-controlling interests 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 interests will be reported using the greater of their carrying value at each reporting date as determined by the HLBV method or the estimated redemption values in each reporting period.

See Note 10 for additional disclosures.

Recent Accounting Pronouncements

In May 2014, FASB issued 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. 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. As of September 30, 2017, the Company has made significant progress towards completing its assessment of the potential effects of these ASUs on its consolidated financial statements, and is actively assessing the potential effects on business processes, systems and controls to support revenue recognition and the related disclosures under ASC. The Company's assessment includes a detailed review of representative contracts at each of the Company's business segments and across all revenue streams and a comparison of its historical accounting policies and practices to the new standard. The Company is continuing to finalize its assessment. Below is a summary of the revenue streams the Company has determined are likely to be impacted by this ASU:

-

Project revenues (revenues accounted for on a percentage-of-cost-completed basis) - Although the Company is still finalizing their analysis of contracts; currently, the Company has identified changes in two key areas in this revenue stream:

Under current accounting policies, the Company accounts for project revenues such that the cost of material or equipment delivered are included in the measure of progress even if not installed. Under this ASU, the cost of uninstalled material or equipment will generally be excluded from the measure of progress, unless specifically produced or manufactured for a project, because such costs are not a measure of progress, unless the materials or equipment are delivered and expected to be installed in 90 days or less.

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The impact on the Company's consolidated financial statements from this accounting change may be material in future periods.

Commissions are currently recorded when earned and included in the measure of progress towards completion. Under the new ASU, the Company will record commission costs ratable over the installation period in accordance with the Company's measurement of progress and excluded from the Company's calculation of revenue surrounding performance obligations satisfied over time. The impact on the Company's consolidated financial statements from this accounting change may be material in future periods.

Energy assets revenue - The Company expects a change to the timing of revenue recognition for the Company's renewable energy incentive sales (including, among other renewable energy incentives, SRECs). Under current accounting policies, the Company recognizes revenue for SRECs and other renewable energy incentives when generated if the Company has a signed contract to sell those SRECs or renewable energy incentives to a third party (thus making the sale price fixed and determinable). Under this ASU, the Company will recognize SREC and other renewable energy incentive revenues when the rights are transferred to a third party, which can be up to six months after generation. The Company is currently evaluating the impact on its consolidated financial statements from this accounting change.

As part of this analysis, the Company is evaluating its information technology capabilities and systems, and does not expect to incur significant information technology costs to modify systems currently in place. The Company will implement targeted changes to its internal reporting processes to facilitate gathering the data needed for the new disclosure requirements. The Company will also implement updates to its control processes and procedures, as necessary, based on changes resulting from the new standard.

The Company has elected to adopt the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in these ASUs and the Company's current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings.

The Company continues to assess the potential impacts of the new standard, including the areas described above. Additionally, the Company is currently evaluating any tax implications the adoption of this new standard may have on the consolidated financial statements. However, the Company does not know or cannot reasonably estimate quantitative information related to the impact of the new standard on the financial statements at this time. The FASB has issued, and may issue in the future, interpretive guidance which may cause the Company's evaluation to change. Further, there are certain industry-specific implementation issues that are still unresolved and, depending on the resolution of these matters, conclusions on the impact on the Company's revenue recognition patterns could change.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.



In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting. The guidance in this ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. The Company adopted this guidance in the first quarter of fiscal 2017, and as a result of this adoption recorded a \$4,000 deferred tax asset and corresponding credit to retained

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earnings for excess tax benefits that had not previously been recognized because the related tax deductions had not reduced taxes payable. The Company has not changed its accounting policy in regards to forfeitures as a result of the adoption of this guidance. The Company's adoption of the new standard also resulted in the prospective classification of excess tax benefits as cash flows from operating activities in the same manner as other cash flows related to income taxes within the consolidated statements of cash flows. Based on the prospective method of adoption chosen, the classification of excess tax benefits within the consolidated statements of cash flows for prior periods presented has not been adjusted to reflect the change.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 eliminates diversity in practice in how certain cash receipts and cash payments are presented and classified in the consolidated statements of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-15, but does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 23), Restricted Cash. ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The guidance should be applied using a retrospective transition method for each period presented. The Company expects to adopt this guidance when effective. The Company is currently evaluating the impact ASU 2016-18 will have on its consolidated financial statements, and expects the ASU will modify the presentation of the consolidated statements of cash flows, but will not have a material impact on the consolidated statements of income, consolidated statements of comprehensive income (loss), consolidated statement of changes in redeemable non-controlling interests and stockholders' equity and the consolidated balance sheets.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. Under the new guidance, a reporting entity will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment (formerly known as “Step-2” analysis). Instead, impairment will be measured using the difference between carrying amount and the fair value of the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact ASU 2017-04 will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This new guidance amends the scope of modification accounting for share-based payment awards. ASU 2017-09 provide guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of ASU 2017-09, but does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the impact ASU 2017-12 will have on its consolidated financial statements.

**3. BUSINESS ACQUISITIONS AND RELATED TRANSACTIONS**

The Company accounts for acquisitions using the acquisition method in accordance with ASC 805, Business Combinations. The purchase price for each has been allocated to the assets based on their estimated fair values at the

date of each acquisition.

In January 2017, the Company acquired two solar PV projects currently under construction as well as associated construction loan agreements with a bank for use in providing non-recourse financing for these acquired solar PV projects currently under construction. The Company paid \$2,409 to acquire the assets under construction, and assumed \$5,635 of associated non-recourse financing, resulting in a total purchase price of \$8,044. No cash was received in the transaction, and the cash paid of \$2,409 represented the total fair value of consideration to acquire the solar PV projects currently under construction. The Company allocated \$256 of the cost to prepaid expenses and other current assets and \$7,788 to property and equipment and energy assets.

The results of the acquired solar PV projects currently under construction since the date of the acquisitions have been included in the Company's operations as presented in the accompanying consolidated statements of income, consolidated statements of comprehensive income (loss) and consolidated statements of cash flows.

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## 4. 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, 2016	\$24,759	\$3,375	\$3,262	\$	—\$26,580	\$57,976
Sale of assets of a business	—	—	—	—	(2,639 )	(2,639 )
Currency effects	—	—	253	—	517	770
Balance, September 30, 2017	\$24,759	\$3,375	\$3,515	\$	—\$24,458	\$56,107
Accumulated Goodwill Impairment Balance, December 31, 2016	\$—	\$—	\$(1,016)	\$	—\$—	\$(1,016)
Accumulated Goodwill Impairment Balance, September 30, 2017	\$—	\$—	\$(1,016)	\$	—\$—	\$(1,016)

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, 2017 or for the year ended December 31, 2016.

During the nine months ended September 30, 2017, the Company sold assets of a business to a third party for cash proceeds of \$2,777, and as a result goodwill decreased by \$2,639.

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, 2017	As of December 31, 2016
Gross Carrying Amount		
Customer contracts	\$ 7,777	\$ 7,594
Customer relationships	11,830	11,652
Non-compete agreements	3,046	3,203
Technology	2,754	2,716
Trade names	546	542
	25,953	25,707
Accumulated Amortization		
Customer contracts	7,769	7,566
Customer relationships	9,216	8,048
Non-compete agreements	3,032	3,158
Technology	2,612	2,485
Trade names	523	519
	23,152	21,776
Intangible assets, net	\$ 2,801	\$ 3,931

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income. Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income. Amortization expense for the three months ended

September 30, 2017 and 2016 related to customer contracts was \$8 and \$46, respectively. Amortization expense for the nine months ended September 30, 2017 and 2016 related to customer contracts was \$23 and \$140, respectively. Amortization expense for the three months ended September 30, 2017 and 2016 related to all other acquired intangible assets was \$358 and \$536, respectively.

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Amortization expense for the nine months ended September 30, 2017 and 2016 related to all other acquired intangible assets was \$1,059 and \$1,653, respectively.

**5. INCOME TAXES**

The provision for income taxes was \$3,881 and \$1,865 for the three months ended September 30, 2017 and 2016, respectively. The provision for income taxes was \$4,296 and \$2,872 for the nine months ended September 30, 2017 and 2016, respectively. The estimated 2017 effective tax rate was 30.6% for the three months ended September 30, 2017 compared to a 24.3% estimated annual effective tax rate for the three months ended September 30, 2016. The estimated 2017 effective tax rate was 24.8% for the nine months ended September 30, 2017 compared to a 25.0% estimated annual effective tax rate for the nine months ended September 30, 2016.

The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2017 were the effects of investment tax credits to which the Company is entitled based on its investment in plants in which ownership is retained, as well as the effects of revisions of prior year estimates of the tax deduction under Internal Revenue Code Section 179D. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2016 were the effects of the tax deduction under Internal Revenue Code Section 179D and production tax credits to which the Company is entitled from owned plants.

The investment tax credits, production tax credits and other energy related tax incentives to which the Company may be entitled fluctuate from year to year based on the cost of the renewable energy plants the Company places or expects to place in service and production levels at company owned facilities in that year. The Section 179D deduction expired December 31, 2016.

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, 2016	\$ 600
Additions for prior year tax positions	—
Settlements with tax authorities	—
Reductions of prior year tax positions	—
Balance, September 30, 2017	\$ 600

At September 30, 2017 and December 31, 2016, the Company had approximately \$600 and \$600, respectively, of total gross unrecognized tax benefits. At September 30, 2017 and December 31, 2016, the Company had approximately \$20 and \$20, respectively, of total gross unrecognized tax benefits (net of the federal benefit on state amounts) representing the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The adoption of ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting, which was adopted in the first quarter of fiscal 2017, had no material impact on the benefit for income taxes for the nine months ended September 30, 2017 because no material excess tax benefits related to share-based awards were recognized during that period.

**6. 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

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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 the 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. During the fourth quarter of 2015, the Company received the final bill from U.S. Customs for liquidation of one remaining covered shipment containing PRC cells and the matter was resolved in the first quarter of 2016.

**Commitments as a Result of Acquisitions**

Related to the Company's acquisition of Energyexcel LLP (“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 pound sterling (\$6,026 converted as of September 30, 2017) in additional consideration, accounted for as compensation for post-combination services, if the acquired business meets certain financial performance milestones through December 31, 2018. No amounts were accrued as of September 30, 2017 and December 31, 2016, respectively, as milestones are not considered likely to be achieved.

**7. 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:

	Fair Value as of	
	September 30,	December 31,
Level	2017	2016

**Assets:**

Interest rate swap instruments 2	\$31	\$ —
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**Liabilities:**

Interest rate swap instruments 2	\$3,885	\$ 3,843
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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, 2017 and December 31, 2016 the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements which are considered to be level two inputs. There have been no transfers in or out of

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level two for the nine months ended September 30, 2017 and the year ended December 31, 2016. 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, 2017		As of December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	\$173,918	\$173,808	\$145,746	\$145,238

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, among other items. There were no assets recorded at fair value on a non-recurring basis at September 30, 2017 or December 31, 2016.

## 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

	Derivatives as of September 30, 2017		December 31, 2016		Fair Value
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts	Other assets	\$31	Other assets		\$—
Interest rate swap contracts	Other liabilities	\$3,885	Other liabilities		\$3,843

The following table presents information about the effects of the Company's derivative instruments on the consolidated statements of income 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, 2017		Nine Months Ended September 30, 2016	
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	\$(28)	\$(74)	\$(206)	\$(227)

Derivatives Designated as Hedging Instruments:

Interest rate swap contracts	Other expenses, net	\$(28)	\$(74)	\$(206)	\$(227)
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The following table summarizes the pre-tax amount of unrealized gain or loss recognized in accumulated other comprehensive income (loss), net ("AOCI") in the Company's consolidated balance sheets:

	Nine Months Ended September 30, 2017
Derivatives Designated as Hedging Instruments:	
Accumulated loss in AOCI at the beginning of the period	\$(2,042 )
Unrealized gain recognized in AOCI	535
Loss reclassified from AOCI to other expenses, net	(615 )
Accumulated loss in AOCI at the end of the period	\$(2,122 )

## 9. INVESTMENT FUNDS

During the third quarter of 2015, the Company formed an investment fund for the purpose of funding the purchase of a solar energy system. During the second quarter of 2017, the Company formed an additional investment fund for the purpose of funding the purchase of a solar energy system. The Company consolidates the investment funds, and all inter-company balances and transactions between the Company and the investment funds are eliminated in its consolidated financial statements. The Company determined that the investment funds meet the definition of a VIE. The Company uses a qualitative approach in assessing the consolidation requirement for VIEs that focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

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The Company has considered the provisions within the contractual arrangements that grant it power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems and associated long term customer contracts to be sold or contributed to the VIEs, and installation, operation and maintenance of the solar energy systems. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights. As such, the Company has determined it is the primary beneficiary of the VIEs for all periods presented. The Company evaluates its relationships with VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

Under the related agreements, cash distributions of income and other receipts by the funds, net of agreed-upon expenses and estimated expenses, tax benefits and detriments of income and loss, and tax benefits of tax credits, are assigned to the funds' investors and Company's subsidiaries as specified in contractual arrangements. Certain of these arrangements have call and put options to acquire the investors' equity interest as specified in the contractual agreements. See Note 10 for additional information on the call and put options.

A summary of amounts related to the investment funds in the Company's consolidated balance sheets is as follows:

	September	December
	30,	31,
	2017	2016
Cash	\$ 1,264	\$ 1,157
Restricted cash	1,554	1,554
Accounts receivable	126	80
Costs and estimated earnings in excess of billings	510	50
Prepaid expenses and other current assets	9	50
Energy assets, net	55,236	33,734
Other assets	—	77
Accrued liabilities	\$ 594	\$ 165

**10. NON-CONTROLLING INTERESTS****Redeemable Non-controlling Interests**

The Company's wholly owned subsidiary with a membership interest in the investment fund formed in the third quarter of 2015 has the right, beginning on the fifth anniversary of the final funding of the variable rate construction and term loans due 2023 and extending for six months, to elect to require the non-controlling interest holder to sell all of its membership units to the Company's wholly owned subsidiary, a call option. The Company's investment fund formed in the third quarter of 2015 also includes a right, beginning on the sixth anniversary of the final funding and extending for one year, for the non-controlling interest holder to elect to require the Company's wholly owned subsidiary to purchase all of its membership interests in the fund, a put option.

The Company's wholly owned subsidiary with a membership interest in the investment fund formed in the second quarter of 2017 has the right, beginning on the fifth anniversary of the final funding of the non-controlling interest holder and extending for six months, to elect to require the non-controlling interest holder to sell all of its membership units to the Company's wholly owned subsidiary, a call option. The Company's investment fund formed in the second quarter of 2017 also includes a right, beginning on the sixth anniversary of the final funding and extending for one year, for the non-controlling interest holder to elect to require the Company's wholly owned subsidiary to purchase all of its membership interests in the fund, a put option.

The purchase price for the funds investors' interests under the call options is equal to the fair market value of such interest at the time the option is exercised. The call options are exercisable beginning on the date that specified conditions are met for each respective fund. None of the call options are expected to become exercisable prior to 2021.

The purchase price for the funds investors' interests in the investment funds under the put options is the lessor of fair market value at the time the option is exercised and a specified amount, ranging from \$659 - \$917. The put options for this investment funds are exercisable beginning on the date that specified conditions are met for each respective fund. The put options are not expected to become exercisable prior to 2022.

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Because the put options represents redemption features that are not solely within the control of the Company, the non-controlling interests in these funds are presented outside of permanent equity. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date (which is impacted by attribution under the HLBV method) or their estimated redemption value in each reporting period. At both September 30, 2017 and December 31, 2016 redeemable non-controlling interests were reported at their carrying value of \$7,532 and \$6,847, respectively, as the carrying value at each reporting period was greater than the estimated redemption value.

**11. 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 operations 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 and the construction of small-scale plants for customers. The "All Other" category offers enterprise energy management services, consulting services and the sale and installation of solar-PV energy products and systems which we refer to as integrated-PV. These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments. Certain reportable segments are an aggregation of operating segments. The accounting policies are the same as those described in the summary of significant accounting policies in Note 2. During the three and nine months ended September 30, 2016, the Company included in unallocated corporate activity \$2,194 and \$3,195, respectively, as a reserve for a customer who declared bankruptcy. During the three months ended June 30, 2016, the Company also reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts.

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

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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, 2017						
Revenues	\$78,185	\$63,873	\$14,719	\$ 27,295	\$20,672	\$ 204,744
Interest income	—	14	—	26	—	40
Interest expense	—	262	500	1,673	13	2,448
Depreciation and amortization of intangible assets	105	644	303	4,636	497	6,185
Unallocated corporate activity	—	—	—	—	—	(6,839 )
Income before taxes, excluding unallocated corporate activity	4,411	8,753	1,537	3,819	991	19,511
Three Months Ended September 30, 2016						
Revenues	83,652	46,498	12,018	21,790	16,640	180,598
Interest income	—	2	—	10	—	12
Interest expense	—	278	493	1,116	—	1,887
Depreciation and amortization of intangible assets	116	686	288	4,063	649	5,802
Unallocated corporate activity	—	—	—	—	—	(10,478 )
Income (loss) before taxes, excluding unallocated corporate activity	7,918	5,338	(154 )	5,312	(261 )	18,153
Nine Months Ended September 30, 2017						
Revenues	180,770	170,903	33,211	64,889	56,246	506,019
Interest income	—	29	1	56	—	86
Interest expense	—	795	1,434	4,300	38	6,567
Depreciation and amortization of intangible assets	246	1,951	878	13,109	1,407	17,591
Unallocated corporate activity	—	—	—	—	—	(20,931 )
Income before taxes, excluding unallocated corporate activity	4,242	23,079	1,638	6,971	2,304	38,234
Nine Months Ended September 30, 2016						
Revenues	195,856	128,266	40,023	61,543	51,314	477,002
Interest income	—	7	—	29	—	36
Interest expense	—	666	1,243	3,212	—	5,121
Depreciation and amortization of intangible assets	390	1,913	788	11,663	1,997	16,751
Unallocated corporate activity	—	—	—	—	—	(25,044 )
Income (loss) before taxes, excluding unallocated corporate activity	\$ 12,732	\$ 16,303	\$(1,457 )	\$ 9,923	\$(971 )	\$ 36,530

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## 12. LONG-TERM DEBT

## Variable-Rate Construction and Term Loans

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, with interest payments due in quarterly installments. The term loan matures on February 28, 2023, and all remaining unpaid amounts outstanding under the facility will be due at that time. On March 30, 2016, the construction loan was converted to a term loan. At September 30, 2017, \$19,471 was outstanding under the term loan. At December 31, 2016, \$19,877 was outstanding under the term loan. The variable rate for this loan at September 30, 2017 was 3.83%.

In August 2016, the Company entered into a credit and guaranty agreement with two banks for use in providing limited recourse financing for certain of its solar PV projects in operation. The credit and guaranty agreement provided for a term loan credit facility with an original principal balance of \$4,837 and bears interest at a fixed rate of 4.95%. At September 30, 2017, \$4,742 was outstanding under the term loan. At December 31, 2016, \$4,616 was outstanding under the term loan.

In November 2016, the Company entered into a construction loan agreement with a bank for use in providing non-recourse financing for a certain natural gas to energy project currently under construction. The construction loan agreement provides for a \$9,500 construction facility and bears interest at a fixed rate of 8.75%. The facility matures on March 1, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$5,126 was outstanding under the construction loan. At December 31, 2016, \$3,258 was outstanding under the construction loan. The Company classified this debt as current as of December 31, 2016, due to the Company's intent to repay the construction loan in full prior to December 31, 2017.

In November 2016, the Company entered into a construction loan agreement and subsequent amendment with a bank for use in providing non-recourse financing for certain solar PV projects currently under construction. The construction loan agreement provides for a \$35,000 construction facility and bears interest at a variable rate. The facility matures on June 30, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$4,516 was outstanding under the construction loan. At December 31, 2016, \$7,008 was outstanding under the construction loan. The interest rate at September 30, 2017 was 6.75%. The Company has classified this debt as non-current as of September 30, 2017 and December 31, 2016, due to the Company's intention to refinance the variable rate construction loan to sale-leasebacks prior to the maturity date.

In December 2016, the Company acquired a solar PV project currently under construction as well as an associated construction loan agreement with a bank for use in providing non-recourse financing for this acquired solar PV project currently under construction. The construction loan agreement provided for a \$10,694 construction facility and bore interest at a rate of 13.00%. The facility matured on May 30, 2017, and all remaining unpaid amounts outstanding under the facility were paid at that time. At December 31, 2016, \$9,503 was outstanding under the construction loan. The Company had classified this debt as non-current, due to the Company's intention to refinance the construction loan to a term loan prior to the maturity date. The Company did refinance the construction loan to a term loan during the three months ended June 30, 2017. This construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provided for a 60-day notice period to repay the construction loan balance. The bank did not exercise the subjective acceleration clause during the term of the loan agreement.

In January 2017, the Company acquired two solar PV projects currently under construction as well as associated construction loan agreements with a bank for use in providing non-recourse financing for these acquired solar PV projects currently under construction (see Note 3). The construction loans agreements provided for construction facilities of \$3,823 and \$4,008 and both facilities bore interest at a fixed rate of 13.00%. These facilities matured on May 30, 2017 and May 26, 2017, respectively, and all remaining unpaid amounts outstanding under each respective facility were paid at those times. The Company had classified both construction loans as non-current due to the



Company's intention to refinance the construction loans to term loans prior to the maturity dates. The Company did refinance the construction loans to a term loan during the three months ended June 30, 2017. Each construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, each subjective acceleration clause provided for a 60-day notice period to repay the respective construction loan balance. The bank did not exercise the subjective acceleration clauses during the term of the loan agreement.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

In March 2017, the Company entered into a credit agreement with a bank for use in providing non-recourse financing for a certain solar PV project in operation. The credit agreement provides for a \$4,300 construction-to-term-loan credit facility and bears interest at a fixed rate of 5.50% during the construction phase and 5.00% during the term loan phase, with interest payments due monthly. The construction loan automatically converts to a term loan on March 24, 2018 and matures on March 24, 2028, with all remaining unpaid amounts outstanding under the agreement will be due at that time. At September 30, 2017, \$4,092 was outstanding under the construction loan.

In April 2017, the Company entered into a non-recourse construction-to-term loan agreement with a municipal corporation to finance construction costs on a certain biogas facility project in development. The construction-to-term loan agreement provides for a \$24,823 facility and bears interest at a fixed rate of 4.50% during both the construction and term loan phases, with interest payments due monthly. The construction loan converts to a term loan upon completion of the Biogas Facility and matures ten years after the conversion date, with all remaining unpaid amounts outstanding under the agreement due at that time. At September 30, 2017, \$13,325 was outstanding under the construction loan.

In April 2017, the Company entered into a credit and guaranty agreement with a bank for use in providing limited recourse financing for certain of its solar PV projects in operation. The credit and guaranty agreement provided for a term loan credit facility with an original principal balance of \$3,151 and bears interest at a fixed rate of 5.61% with interest payments due in quarterly installments. The term loan matures on February 28, 2034, and all remaining unpaid amounts outstanding under the credit and guaranty agreement will be due at that time. At September 30, 2017, \$3,193 was outstanding under the term loan.

In June 2017, the Company entered into a loan agreement for use in providing non-recourse financing for certain of its solar PV projects currently in operation. The loan agreement provides for a \$14,100 term loan credit facility and bears interest at a variable rate, with interest payments due in quarterly installments. The term loan matures on December 15, 2027, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$14,100 was outstanding under the term loan. The variable rate for this loan at September 30, 2017 was 3.77%.

In September 2017, the Company entered into a construction-to-term loan agreement with a bank for use in providing recourse financing for a certain solar PV project under construction. The construction-to-term loan agreement provides for a \$3,126 facility and bears interest at a fixed rate of 4.25% with interest payments due in monthly installments. The construction loan automatically converts to a term loan on October 1, 2018 and matures on October 1, 2038, with all remaining unpaid amounts outstanding under the agreement will be due at that time. At September 30, 2017, \$747 was outstanding under the construction loan.

**Senior Secured Credit Facility - Revolver and Term Loan**

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 and term loan mature on June 30, 2020, 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. In July 2016, the Company entered into an amendment to the third amended and restated bank credit facility that amended the requirement of the total funded debt to EBITDA ratio. In November 2016, the Company entered into an additional amendment to the third amended and restated bank credit facility that increased the amount of the term loan under the credit facility by approximately \$20,000 to an aggregate of \$30,000 and extended the maturity date of the term loan from June 30, 2018 to June 30, 2020. In June 2017, the Company entered into an additional amendment to the third amended and restated bank credit facility that increased the amount available to be drawn on the revolving credit facility from \$60,000 to \$75,000. This amendment also amended the requirement of the total funded debt to EBITDA ratio as described below.

The credit facility consists of a \$75,000 revolving credit facility and a \$30,000 term loan. 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). At September 30, 2017, there was \$27,880 amounts outstanding under the revolving credit facility and \$24,000 outstanding under the term loan. At December 31, 2016, there was \$15,033 outstanding under the revolving credit facility and \$28,500 outstanding under the term loan.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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, 2017, the interest rate for borrowings under the revolving credit facility was 4.75% and the weighted average interest rate for borrowings under the term loan was 3.32%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1,500, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at the 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 2.75 to 1.0 as of the end of each fiscal quarter ending September 30, 2016 and thereafter; 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, 2017, the Company was in compliance with all financial and operational covenants.

**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, 2016 included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 3, 2017 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. Forward looking statements include statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, objectives of management, expected market growth and other characterizations of future events or circumstances. All statements, other than statements of historical fact, including statements that refer to our expectations as to the future growth of our business and associated expenses; our expectations as to revenue generation; the future availability of borrowings under our revolving credit facility; the expected future growth of the market for energy efficiency and renewable

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energy solutions; our backlog, awarded projects and recurring revenue and the timing of such matters; our expectations as to acquisition activity; the impact of any restructuring; the uses of future earnings; our intention to repurchase shares of our Class A common stock; the expected energy and cost savings of our projects; and the expected energy production capacity of our renewable energy plants; 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 “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, 2017. 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 have no current intention of doing so and 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 and Europe. 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. In June 2017, we entered into a separate 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 these agreements in order to finance the costs of constructing certain energy assets which are under long-term customer contracts. We have determined that we are the primary beneficiary in the operational partnerships for accounting purposes. Accordingly, we consolidate the assets and liabilities and operating results of the entities in our consolidated financial statements. We recognize the investors’ share of the net assets of the investors’ funds as redeemable non-controlling interests in our consolidated balance sheets. These income or loss allocations, which are reflected on our consolidated statements of income, may create significant volatility in our reported results of operations, including potentially changing net income available to common stockholders from income to loss, or vice versa, from quarter to quarter.

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.

From time to time we also acquire solar photovoltaic (“solar PV”) projects under construction. Our acquisition of a solar PV asset under construction in the fourth quarter of 2016, as well as two solar PV assets under construction in the first quarter of 2017, expanded our portfolio of small-scale renewable energy plants.

### 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 revenues and operating income in the third and fourth quarter are typically higher, and our revenues 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.

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Our annual and quarterly financial results are also subject to significant fluctuations as a result of other factors, many of which are outside of our control. See “Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter” in Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2016 (“Annual Report”).

**Backlog and Awarded Projects**

Total construction backlog represents projects that are active within our Energy Savings Performance Contract (“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 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.

As of September 30, 2017, we had fully-contracted backlog of approximately \$627.5 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 \$1,097.0 million. As of September 30, 2016, we had fully-contracted backlog of approximately \$443.8 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 \$1,054.5 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, 2017 and 2016, our 12-month backlog was \$411.9 million and \$285.9 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 \$177.7 million and \$149.0 million as of September 30, 2017 and 2016, 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. 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 our estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, realization of project development costs, fair value of derivative financial instruments, accounting for business acquisitions, stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.



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 under different assumptions or conditions. The following 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:

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Revenue Recognition;  
 Energy Assets (formerly referred to as Project Assets);  
 Goodwill and Intangible 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. 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, 2016.

Recent Accounting Pronouncements

In May 2014, FASB issued 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. 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. As of September 30, 2017, we have made significant progress towards completing our assessment of the potential effects of these ASUs on our consolidated financial statements, and are actively assessing the potential effects on business processes, systems and controls to support revenue recognition and the related disclosures under ASC. Our assessment includes a detailed review of representative contracts at each of our business segments and across all revenue streams and a comparison of our historical accounting policies and practices to the new standard. We are continuing to finalize our assessment. Below is a summary of the revenue streams we have determined are likely to be impacted by this ASU:

- Project revenues (revenues accounted for on a percentage-of-cost-completed basis) - Although we are still finalizing our analysis of contracts, currently, we have identified changes in two key areas in this revenue stream:

Under current accounting policies, we account for project revenues such that the cost of material or equipment delivered are included in the measure of progress even if not installed. Under this ASU, the cost of uninstalled material or equipment will generally be excluded from the measure of progress, unless specifically produced or manufactured for a project, because such costs are not a measure of progress, unless the materials or equipment are delivered and expected to be installed in 90 days or less. The impact on the our consolidated financial statements from this accounting change may be material in future periods.

Commission costs are currently recorded when earned and included in the measure of progress toward completion. Under the new ASU, we will record commission costs ratably over the installation period based on the project’s percent complete, and they will be excluded from the percent of cost completed calculation. The impact on the our consolidated financial statements from this accounting change may be material in future periods.

- Energy assets revenue - We expect a change to the timing of revenue recognition for our renewable energy incentive sales (including, among other renewable energy incentives, SRECs). Under current accounting policies, we recognize

revenue for SRECs and other renewable energy incentives when generated if we have

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a signed contract to sell those SRECs or renewable energy incentives to a third party (thus making the sale price fixed and determinable). Under this ASU, we will recognize SREC and other renewable energy incentive revenues when the rights are transferred to a third party, which can be up to six months after generation. We are currently evaluating the impact on our consolidated financial statements from this accounting change.

As part of this analysis, we are evaluating our information technology capabilities and systems, and do not expect to incur significant information technology costs to modify systems currently in place. We will implement targeted changes to our internal reporting processes to facilitate gathering the data needed for the new disclosure requirements. We will also implement updates to our control processes and procedures, as necessary, based on changes resulting from the new standard.

We have elected to adopt the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in these ASUs and the our current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings.

We continue to assess the potential impacts of the new standard, including the areas described above. Additionally, we are currently evaluating any tax implications the adoption of this new standard may have on our consolidated financial statements. However, we do not know or cannot reasonably estimate quantitative information related to the impact of the new standard on the financial statements at this time. The FASB has issued, and may issue in the future, interpretive guidance which may cause our evaluation to change. Further, there are certain industry-specific implementation issues that are still unresolved and, depending on the resolution of these matters, conclusions on the impact on our revenue recognition patterns could change.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of adopting the new standard on our consolidated financial statements. In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting. The guidance in this ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. ASU 2016-09 was effective for us on January 1, 2017. We adopted this guidance in the first quarter of fiscal 2017, and as a result recorded a \$4.0 million deferred tax asset and corresponding credit to retained earnings for excess tax benefits that had not been previously recognized because the related tax deductions had not reduced taxes payable. We have not changed our accounting policy in regards to forfeitures as a result of the adoption of this guidance. Our adoption of the new standard also resulted in the prospective classification of excess tax benefits as cash flows from operating activities in the same manner as other cash flows related to income taxes within the consolidated statements of cash flows. Based on the prospective method of adoption chosen, the classification of excess tax benefits within the consolidated statements of cash flows for prior periods presented has not been adjusted to reflect the change.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 eliminates diversity in practice in how certain cash receipts and cash payments are presented and classified in the consolidated statements of cash flows. ASU 2016-15 is effective for

fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of ASU 2016-15, but do not expect that the adoption of this guidance will have a significant impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 23), Restricted Cash. ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The guidance should be applied using a retrospective transition method for each

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period presented. We expect to adopt this guidance when effective. We are currently evaluating the impact ASU 2016-18 will have on our consolidated financial statements, and expect the ASU will modify the presentation of the consolidated statements of cash flows, but will not have a material impact on the consolidated statements of income, consolidated statements of comprehensive income (loss), consolidated statement of changes in redeemable non-controlling interests and stockholders' equity and the consolidated balance sheets.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. Under the new guidance, a reporting entity will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment (formerly known as “Step-2” analysis). Instead, impairment will be measured using the difference between carrying amount and the fair value of the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This new guidance amends the scope of modification accounting for share-based payment awards. ASU 2017-09 provide guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of ASU 2017-09, but do not expect that the adoption of this guidance will have a significant impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact ASU 2017-12 will have on our consolidated financial statements.

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## Results of Operations

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

	Three Months Ended September 30,			
	2017		2016	
	Dollar Amount	% of Revenues	Dollar Amount	% of Revenues
Revenues	\$204,744	100.0 %	\$180,598	100.0 %
Cost of revenues	163,377	79.8 %	141,803	78.5 %
Gross profit	41,367	20.2 %	38,795	21.5 %
Selling, general and administrative expenses	27,027	13.2 %	28,852	16.0 %
Operating income	14,340	7.0 %	9,943	5.5 %
Other expenses, net	1,668	0.8 %	2,268	1.3 %
Income before provision from income taxes	12,672	6.2 %	7,675	4.2 %
Income tax provision	3,881	1.9 %	1,865	1.0 %
Net income	8,791	4.3 %	5,810	3.2 %
Net income attributable to redeemable non-controlling interest	(298)	(0.1)%	(95)	(0.1)%
Net income attributable to common shareholders	\$8,493	4.1 %	\$5,715	3.2 %

	Nine Months Ended September 30,			
	2017		2016	
	Dollar Amount	% of Revenues	Dollar Amount	% of Revenues
Revenues	\$506,019	100.0 %	\$477,002	100.0 %
Cost of revenues	403,320	79.7 %	378,675	79.4 %
Gross profit	102,699	20.3 %	98,327	20.6 %
Selling, general and administrative expenses	80,164	15.8 %	81,880	17.2 %
Operating income	22,535	4.5 %	16,447	3.4 %
Other expenses, net	5,232	1.0 %	4,961	1.0 %
Income before provision from income taxes	17,303	3.4 %	11,486	2.4 %
Income tax provision	4,296	0.8 %	2,872	0.6 %
Net income	13,007	2.6 %	8,614	1.8 %
Net loss attributable to redeemable non-controlling interest	673	0.1 %	149	— %
Net income attributable to common shareholders	\$13,680	2.7 %	\$8,763	1.8 %

## Revenues

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

	Three Months			
	Ended September 30,		Dollar Change	Percentage Change
	2017	2016		
Revenues	\$204,744	\$180,598	\$24,146	13.4 %

	Nine Months Ended			
	September 30,		Dollar Change	Percentage Change
	2017	2016		
Revenues	\$506,019	\$477,002	\$29,017	6.1 %

Revenues increased \$24.1 million, or 13.4%, for the three months ended September 30, 2017 compared to the same period of 2016 primarily due to a \$17.4 million increase in revenues from our U.S. Federal segment, a \$5.5 million

increase in our

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Small-Scale Infrastructure segment, a \$4.0 million increase in our All Other segment and a \$2.7 million increase in our Canada segment, offset by a decrease of \$5.5 million in our U.S. Regions segment.

Revenue increased \$29.0 million, or 6.1%, for the nine months ended September 30, 2017 compared to the same period of 2016 primarily due to a \$42.6 million increase in revenues from our U.S. Federal segment, a \$4.9 million increase in our All Other segment and a \$3.3 million increase in our Small-Scale Infrastructure segment, offset by a decrease of \$15.1 million in our U.S. Regions segment and a \$6.8 million decrease in our Canada segment.

**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		Dollar	Percentage
	September 30,			
	2017	2016	Change	Change
Cost of revenues	\$163,377	\$141,803	\$21,574	15.2 %
Gross margin %	20.2 %	21.5 %		

	Nine Months Ended		Dollar	Percentage
	September 30,			
	2017	2016	Change	Change
Cost of revenues	\$403,320	\$378,675	\$24,645	6.5 %
Gross margin %	20.3 %	20.6 %		

Cost of revenues increased \$21.6 million, or 15.2%, and gross margin percentage decreased to 20.2%, from 21.5%, for the three months ended September 30, 2017 compared to the same period of 2016, respectively, primarily due to an increase in revenues from our U.S. Federal segment and a mix of lower margin projects in our U.S. Regions segment. Cost of revenues increased \$24.6 million, or 6.5%, and gross margin percentage decreased slightly to 20.3%, from 20.6%, for the nine months ended September 30, 2017 compared to the same period of 2016, respectively. The increase in cost of revenues is primarily due to an increase in revenues from our U.S. Federal segment. The gross margin decrease is primarily due to a mix of lower margin projects in our U.S. Regions segment, partially offset by a decrease in project revenues related to a significant project from our Canada segment which was completed in the first quarter of 2017.

As a result of certain acquisitions, we have intangible assets related to customer contracts. These are typically 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. Amortization expense related to customer contracts recorded for the three months ended September 30, 2017 and 2016 was less than \$0.1 million. Amortization expense related to customer contracts recorded for the nine months ended September 30, 2017 and 2016 was less than \$0.1 million.

**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		Dollar	Percentage
	Ended September 30,			
	2017	2016	Change	Change
Selling, general and administrative expenses	\$27,027	\$28,852	\$(1,825)	(6.3)%

	Nine Months		Dollar	Percentage
	Ended September 30,			
	2017	2016	Change	Change

Selling, general and administrative expenses \$80,164 \$81,880 \$(1,716) (2.1 )%

Selling, general and administrative expenses decreased \$1.8 million, or 6.3%, for the three months ended September 30, 2017 primarily due to a \$2.2 million write-down of accounts receivable related to a customer that declared bankruptcy incurred during the three months ended September 30, 2016. Selling, general and administrative expenses decreased \$1.7 million, or 2.1%, for the nine months ended September 30, 2017 primarily due to \$2.1 million in restructuring charges incurred during the nine months ended September 30, 2016, which included \$1.9 million in bad debt expense in our Canada segment related to our restructuring efforts, and \$2.9 million in write-downs, primarily in accounts receivable related to the customer bankruptcy, offset by higher project development costs during the nine months ended September 30, 2017.

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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. For the three months ended September 30, 2017 and 2016, we recorded amortization expense, related to these intangible assets, of \$0.4 million and \$0.5 million, respectively. For the nine months ended September 30, 2017 and 2016, we recorded amortization expense, related to these intangible assets, of \$1.1 million and \$1.7 million, respectively.

**Other Expenses, Net**

Other expenses, net, includes gains and losses from derivatives and foreign currency transactions, interest income and expenses and amortization of deferred financing costs, net. Other expenses, net decreased \$0.6 million for the three months ended September 30, 2017 compared to the same period of 2016 primarily due to more favorable foreign exchange unrealized gains for the three months ended September 30, 2017, offset by an increase in interest expense. Other expenses, net, increased \$0.3 million for the nine months ended September 30, 2017 compared to the same period of 2016 primarily due to an increase in interest expense offset by more favorable foreign exchange unrealized gains for the nine months ended September 30, 2017.

**Income Before Taxes**

Income before taxes increased \$5.0 million, or 65.1%, from income of \$7.7 million for the three months ended September 30, 2016 to income of \$12.7 million for the three months ended September 30, 2017 due to the reasons described above. Income before taxes increased \$5.8 million, or 50.6%, from income of \$11.5 million for the nine months ended September 30, 2016 to income of \$17.3 million for the nine months ended September 30, 2017 due to the reasons described above.

**Provision from Income Taxes**

The provision for income taxes was \$3.9 million for the three months ended September 30, 2017, compared to a provision of \$1.9 million for the three months ended September 30, 2016. The estimated annual effective tax rate applied for the three months ended September 30, 2017 was 30.6% compared to 24.3% for the three months ended September 30, 2016. The increase in the rate compared to the same period in the prior year was due primarily to revisions of prior year estimates of the effects of the tax deduction under Internal Revenue Code Section 179D and the timing of the recognition of discrete tax items within interim periods. The tax deduction under Section 179D expired as of December 31, 2016.

The provision for income taxes was \$4.3 million for the nine months ended September 30, 2017, compared to a provision of \$2.9 million for the nine months ended September 30, 2016. The estimated annual effective tax rate applied for the nine months ended September 30, 2017 was 24.8% compared to 25.0% for the nine months ended September 30, 2016. The decrease in the rate compared to the same period in the prior year was due primarily to revisions of prior year estimates of the effects of the tax deduction under Internal Revenue Code Section 179D, which expired as of December 31, 2016.

The principal reasons for the difference between the statutory rate and the estimated annual effective rate for 2017 relate to the effects of investment tax credits to which we are entitled based on our investment in plants in which we retain ownership, as well as the effects of revisions of prior year estimates of the tax deduction under Internal Revenue Code Section 179D. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2016 relates to the effects of the tax deduction under Internal Revenue Code Section 179D and production tax credits to which we are entitled from plants we own.

The investment tax credits and other energy related tax incentives to which we are entitled fluctuate from year to year based on our investment renewable energy plants we place or expect to place in service in that year.

**Net Income and Earnings Per Share**

Net income increased \$3.0 million, or 51.3%, to income of \$8.8 million for the three months ended September 30, 2017 from income of \$5.8 million for the same period of 2016. Net income increased \$4.4 million, or 51.0%, to income of \$13.0 million for the nine months ended September 30, 2017 from income of \$8.6 million for the same period of 2016.

Basic and diluted earnings per share for the three months ended September 30, 2017 were \$0.19, compared to basic and diluted earnings per share for the three months ended September 30, 2016 of \$0.12. Basic and diluted earnings per

share for the nine months ended September 30, 2017 were \$0.30, compared to basic and diluted earnings per share for the nine months ended September 30, 2016 of \$0.19. Weighted average common shares outstanding was lower for the three and nine months ended September 30, 2017 as a result of common stock acquired under our stock repurchase program, contributing to the improvement in basic and diluted earnings per share for both comparative periods.

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## 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 that we own or develop for customers that produce electricity, gas, heat or cooling from renewable sources of energy; and O&M services. Our Small-Scale Infrastructure segment sells electricity, processed renewable gas fuel, heat or cooling, produced from renewable sources of energy and generated by small-scale plants that we own. Our Small-Scale Infrastructure segment also includes certain small-scale plants developed for customers. The "All Other" category offers enterprise energy management services, consulting services and 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		Dollar	Percentage
	Ended September 30,			
	2017	2016	Change	Change
Revenues	\$78,185	\$83,652	\$(5,467)	(6.5)%
Income before taxes	\$4,411	\$7,918	\$(3,507)	(44.3)%

	Nine Months Ended		Dollar	Percentage
	September 30,			
	2017	2016	Change	Change
Revenues	\$180,770	\$195,856	\$(15,086)	(7.7)%
Income before taxes	\$4,242	\$12,732	\$(8,490)	(66.7)%

Revenues for our U.S. Regions segment decreased \$5.5 million, or 6.5%, to \$78.2 million for the three months ended September 30, 2017 and decreased \$15.1 million, or 7.7%, to \$180.8 million for the nine months ended September 30, 2017, compared to the same periods of 2016, respectively, primarily due to a decrease in project revenues attributed to fewer active projects.

Income before taxes for our U.S. Regions segment decreased \$3.5 million, or 44.3%, to \$4.4 million for the three months ended September 30, 2017 and decreased \$8.5 million, or 66.7%, to \$4.2 million for the nine months ended September 30, 2017, compared to the same periods of 2016, respectively, primarily due to the decrease in revenues and gross margin described above.

## U.S. Federal

	Three Months		Dollar	Percentage
	Ended September 30,			
	2017	2016	Change	Change
Revenues	\$63,873	\$46,498	\$17,375	37.4%
Income before taxes	\$8,753	\$5,338	\$3,415	64.0%

	Nine Months Ended		Dollar	Percentage
	September 30,			
	2017	2016	Change	Change
Revenues	\$170,903	\$128,266	\$42,637	33.2%
Income before taxes	\$23,079	\$16,303	\$6,776	41.6%

Revenues for our U.S. Federal segment increased \$17.4 million, or 37.4%, to \$63.9 million for the three months ended September 30, 2017 and increased \$42.6 million, or 33.2%, to \$170.9 million for the nine months ended September

30, 2017, compared to the same periods of 2016, respectively, primarily due to an increase in project revenues related to the increase in average project size versus the prior year.

Income before taxes for our U.S. Federal segment increased \$3.4 million, or 64.0%, to \$8.8 million for the three months ended September 30, 2017 and increased \$6.8 million, or 41.6%, to \$23.1 million for the nine months ended September 30, 2017, compared to the same periods of 2016, respectively, primarily due to the increase in revenues described above partially offset by higher project development costs during the three and nine months ended September 30, 2017, respectively.

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## Canada

	Three Months			
	Ended September 30, 2017	2016	Dollar Change	Percentage Change
Revenues	\$14,719	\$12,018	\$2,701	22.5 %
Income (loss) before taxes	\$1,537	\$(154)	\$1,691	1,098.1 %

	Nine Months			
	Ended September 30, 2017	2016	Dollar Change	Percentage Change
Revenues	\$33,211	\$40,023	\$(6,812)	(17.0)%
Income (loss) before taxes	\$1,638	\$(1,457)	\$3,095	212.4 %

Revenues for our Canada segment increased \$2.7 million, or 22.5%, to \$14.7 million for the three months ended September 30, 2017 compared to the same period of 2016, primarily due to an increase in project revenues. Revenues for our Canada segment decreased \$6.8 million, or 17.0%, to \$33.2 million for the nine months ended September 30, 2017 compared to the same period of 2016 primarily due to a decrease in project revenues related to a significant low margin project which was completed during the nine months ended September 30, 2017.

Income (loss) before taxes for our Canada segment increased \$1.7 million to income of \$1.5 million for the three months ended September 30, 2017 compared to a loss of \$0.2 million for the same period of 2016 primarily due to the increase in revenues described above and favorable foreign currency exchange rate fluctuations realized during the three months ended September 30, 2017. Income (loss) before taxes for our Canada segment increased \$3.1 million to income of \$1.6 million for the nine months ended September 30, 2017 compared to a loss of \$1.5 million for the same period of 2016 primarily due to the decrease in project revenues related to the significant project described above, \$1.9 million of bad debt expense related to our previously disclosed restructuring efforts in Canada recorded during the nine months ended September 30, 2016, and favorable foreign currency exchange rate fluctuations realized during the nine months ended September 30, 2017.

## Small-Scale Infrastructure

	Three Months			
	Ended September 30, 2017	2016	Dollar Change	Percentage Change
Revenues	\$27,295	\$21,790	\$5,505	25.3 %
Income before taxes	\$3,819	\$5,312	\$(1,493)	(28.1)%

	Nine Months			
	Ended September 30, 2017	2016	Dollar Change	Percentage Change
Revenues	\$64,889	\$61,543	\$3,346	5.4 %
Income before taxes	\$6,971	\$9,923	\$(2,952)	(29.7)%

Revenues for our Small-Scale Infrastructure segment increased \$5.5 million, or 25.3%, to \$27.3 million for the three months ended September 30, 2017, compared to the same period of 2016, primarily due to an increase in project revenues. Revenues for our Small-Scale Infrastructure segment increased \$3.3 million, or 5.4%, to \$64.9 million for the nine months ended September 30, 2017, compared to the same period of 2016, respectively, primarily due to an increase in energy and incentive revenue from owned solar and renewable gas assets.

Income before taxes for our Small-Scale Infrastructure segment decreased \$1.5 million, or 28.1%, to \$3.8 million for the three months ended September 30, 2017 and decreased \$3.0 million, or 29.7%, to \$7.0 million for the nine months ended September 30, 2017, compared to the same periods of 2016, respectively, primarily due to a decrease in project revenues related to a significant, higher margin project which was completed during the three months ended September 30, 2016, partially offset by the increase in revenues for the applicable period described above.



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## All Other &amp; Unallocated Corporate Activity

	Three Months Ended		Dollar	Percentage	
	September 30,				
	2017	2016	Change	Change	
Revenues	\$20,672	\$16,640	\$4,032	24.2	%
Income (loss) before taxes	\$991	\$(261)	\$1,252	479.7	%
Unallocated corporate activity	\$(6,839)	\$(10,478)	\$3,639	34.7	%

	Nine Months Ended		Dollar	Percentage	
	September 30,				
	2017	2016	Change	Change	
Revenues	\$56,246	\$51,314	\$4,932	9.6	%
Income (loss) before taxes	\$2,304	\$(971)	\$3,275	337.3	%
Unallocated corporate activity	\$(20,931)	\$(25,044)	\$4,113	16.4	%

Revenues for our All Other segment increased \$4.0 million, or 24.2%, to \$20.7 million for the three months ended September 30, 2017, compared to the same period of 2016 primarily due to an increase in integrated-PV revenues. Revenues for our All Other segment increased \$4.9 million, or 9.6%, to \$56.2 million for the nine months ended September 30, 2017, compared to the same period of 2016, primarily due to an increase in integrated-PV revenues, partially offset by a decrease in revenues from business assets sold during the nine months ended September 30, 2017 as discussed in Note 4.

Income before taxes for our All Other segment increased \$1.3 million to income of \$1.0 million for the three months ended September 30, 2017, compared to the same period of 2016 primarily due to increased integrated-PV revenues as described above. Income (loss) before taxes for our All Other segment increased \$3.3 million to income of \$2.3 million for the nine months ended September 30, 2017, compared to the same period of 2016 primarily due to increased integrated-PV revenues as described above as well as improved profitability following the sale of business assets described above.

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.

**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 the 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 November 6, 2018 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.

Our service offering also includes the development, construction and operation of small-scale renewable energy plants. Small-scale renewable energy projects, or energy 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 three months ended September 30, 2017 and 2016 was \$0.9 million and \$0.3 million, respectively. The amount of interest capitalized relating

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to construction financing during the period of construction for the nine months ended September 30, 2017 and 2016 was \$3.5 million and \$0.6 million, respectively.

Cash flows from operating activities. Operating activities used \$90.8 million of net cash during the nine months ended September 30, 2017. During that period, we had net income of \$13.0 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes, gain on sale of assets, unrealized foreign exchange gain and other non-cash items totaling \$17.1 million. Decreases in accounts receivable, including retainage, inventory and other assets and increases in accrued expenses and other current liabilities and income taxes payable provided \$33.6 million. These were offset by increases in restricted cash, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net, prepaid expenses and other current assets and project development costs and decreases in other liabilities which used \$35.4 million in cash. Increases in Federal ESPC receivables used an additional \$119.1 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 \$47.4 million of net cash during the nine months ended September 30, 2016. During that period, we had net income of \$8.6 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes, unrealized foreign exchange gain and other non-cash items totaling \$24.6 million. Decreases in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net and project development costs and an increase in income taxes payable provided \$21.8 million in cash. These were offset by increases in restricted cash, accounts receivable, including retainage, inventory, prepaid expenses and other current assets and other assets and decreases in accrued expenses and other current liabilities and other liabilities which used \$19.0 million. An increase in Federal ESPC receivables used an additional \$83.4 million.

Cash flows from investing activities. Cash flows from investing activities during the nine months ended September 30, 2017 used \$70.3 million. We invested \$68.7 million on purchases of energy assets during the nine months ended September 30, 2017. We plan to invest an additional \$5 million to \$10 million on capital expenditures, principally for renewable energy plants, for the remainder of 2017. In addition, we invested \$1.9 million in purchases of other property and equipment and \$2.4 million related to acquisitions of renewable energy plants. These investments were offset by \$2.8 million received from the sale of assets of a business.

Cash flows from investing activities during the nine months ended September 30, 2016 used \$47.9 million.

Development of our renewable energy plants used \$45.2 million. In addition, we invested \$2.7 million in purchases of other property.

Cash flows from financing activities. Cash flows from financing activities during the nine months ended September 30, 2017 provided \$170.2 million. This was primarily due to proceeds received from Federal ESPC projects of \$122.3 million, \$30.6 million received under sale-leaseback financings, proceeds from project financings of \$48.9 million, net draws on our revolving credit facility of \$12.8 million, proceeds from exercises of options of \$1.6 million, and net proceeds from redeemable non-controlling interests of \$1.4 million. This was partially offset by payments on long-term debt of \$40.2 million, repurchase of stock of \$3.0 million, including fees, payments of financing fees of \$2.0 million, and restrictions of operating cash of \$2.1 million.

Cash flows from financing activities during the nine months ended September 30, 2016 provided \$92.8 million. This was primarily due to proceeds received from Federal ESPC projects of \$65.1 million, \$17.0 million received under sale-leaseback financings, proceeds from project financings of \$7.8 million, proceeds from exercises of options of \$1.0 million, \$3.0 million of restricted cash released into operating cash, net draws on our revolving credit facility of \$7.5 million and net proceeds from redeemable non-controlling interests of \$6.5 million. These was partially offset by payments on long-term debt of \$9.2 million, payments of financing fees of \$1.3 million, and repurchase of stock of \$4.5 million, including fees.

#### 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 extended our existing credit facility, which was scheduled to expire in accordance with its terms

on June 30, 2016. The revolving credit and term loan facility mature on June 30, 2020, 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. In July 2016, we entered into an amendment to the third amended and restated bank credit facility that amended the requirement of the total funded debt to EBITDA ratio. In November 2016, we entered into an additional amendment to the third amended and restated bank credit facility that increased the amount of the term loan under

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the credit facility by approximately \$20.0 million to an aggregate of \$30.0 million and extended the maturity date of the term loan from June 30, 2018 to June 30, 2020. In June 2017, we entered into an additional amendment to the third amended and restated bank credit facility that increased the amount available to be drawn on the revolving credit facility from \$60.0 million to \$75.0 million. This amendment also amended the requirement of the total funded debt to EBITDA ratio as described below.

The credit facility consists of a \$75.0 million revolving credit facility and a \$30.0 million term loan. 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). At September 30, 2017, there was \$27.9 million borrowings outstanding and \$25.0 million available under the revolving credit facility and \$24.0 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, 2017, the interest rate for borrowings under the revolving credit facility was 4.75% and the weighted average interest rate for borrowings under the term loan was 3.32%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1.5 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 2.75 to 1.0 as of the end of each fiscal quarter ending September 30, 2016 and thereafter; 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, 2017, 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

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consolidated balance sheet, they are generally non-recourse and not direct obligations of Ameresco, Inc. As of September 30, 2017, we had outstanding \$128.8 million in aggregate principal amount under these loans with maturities at various dates from 2017 to 2034. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 4.3% to 8.75%.

In September 2015, we 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 \$20.7 million construction-to-term loan credit facility and bears interest at a variable rate. On March 30, 2016, the construction loan was converted to a term loan. At September 30, 2017, \$19.5 million was outstanding under the term loan. The variable rate for this loan at September 30, 2017 was 3.8%.

In August 2016, we entered into a credit and guaranty agreement with two banks for use in providing limited recourse financing for certain of its solar PV projects in operation. The credit and guaranty agreement provided for a term loan credit facility with an original principal balance of \$4.8 million and bears interest at a fixed rate of 5.0%. At September 30, 2017, \$4.7 million was outstanding under the term loan.

In November 2016, we entered into a construction loan agreement with a bank for use in providing non-recourse financing for certain solar PV projects currently under construction. The construction loan agreement provides for a \$35.0 million construction facility that bears interest at a variable rate. The facility matures on June 30, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$4.5 million was outstanding under the construction loan. The variable rate for this loan at September 30, 2017 was 6.8%.

In November 2016, we entered into a construction loan agreement with a bank for use in providing non-recourse financing for a certain natural gas to energy project currently under construction. The construction loan agreement provides for a \$9.5 million construction facility. The facility matures on March 1, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$5.1 million was outstanding under the construction loan. The fixed rate for this loan at September 30, 2017 was 8.8%.

In December 2016, we acquired a solar PV project currently under construction as well as an associated construction loan agreement with a bank for use in providing non-recourse financing for this acquired solar PV project currently under construction. The construction loan agreement provided for a \$10.7 million construction facility and bore interest at a fixed rate of 13.0%. The facility matured on May 30, 2017, and all remaining unpaid amounts outstanding under the facility were paid at that time. We had classified this debt as non-current due to our intention to refinance the construction loan to a term loan prior to the maturity date. We did refinance the construction loan to a term loan during the three months ended June 30, 2017. This construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provides for a 60-day notice period to repay the construction loan balance. The bank did not exercise the subjective acceleration clause during the term of the loan agreement.

In January 2017, we acquired two solar PV projects currently under construction as well as associated construction loan agreements with a bank for use in providing non-recourse financing for these acquired solar PV projects currently under construction. The construction loans agreements provided for construction facilities of \$3.8 million and \$4.0 million and both facilities bore interest at a fixed rate of 13.0%. These facilities matured on May 30, 2017 and May 26, 2017, respectively, and all remaining unpaid amounts outstanding under each respective facility were paid at those times. We had classified both construction loans as non-current due to our intention to refinance the construction loans to term loans prior to the maturity dates. We did refinance the construction loans to a term loan during the three months ended June 30, 2017. Each construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provided for a 60-day notice period to repay the respective construction loan balance. The bank did not exercise the subjective acceleration clauses during the term of the loan agreement.

In March 2017, we entered into a credit agreement with a bank for use in providing non-recourse financing for a certain solar PV project in operation. The credit agreement provides for a \$4.3 million construction-to-term-loan credit facility and bears interest at a fixed rate of 5.5% during the construction phase and 5.0% during the term loan phase, with interest payments due monthly. The construction loan automatically converts to a term loan on March 24, 2018

and matures on March 24, 2028, and all remaining unpaid amounts outstanding under the agreement will be due at that time. At September 30, 2017, \$4.1 million was outstanding under the construction loan.



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In April 2017, we entered into a non-recourse construction-to-term loan agreement with a municipal corporation to finance construction costs on a certain Biogas Facility project in development. The construction-to-term loan agreement provides for a \$24.8 million facility and bears interest at a fixed rate of 4.5% during both the construction and term loan phases, with interest payments due monthly. The construction loan converts to a term loan upon completion of the Biogas Facility and matures ten years after the conversion date, with all remaining unpaid amounts outstanding under the agreement due at that time. At September 30, 2017, \$13.3 million was outstanding under the construction loan.

In April 2017, we entered into a credit and guaranty agreement with a bank for use in providing limited recourse financing for certain of our solar PV projects in operation. The credit and guaranty agreement provided for a term loan credit facility with an original principal balance of \$3.2 million and bears interest at a fixed rate of 5.6% with interest payments due in quarterly installments. The term loan matures on February 28, 2034, and all remaining unpaid amounts outstanding under the credit and guaranty agreement will be due at that time. At September 30, 2017, \$3.2 million was outstanding under the term loan.

In June 2017, we entered into a loan agreement for use in providing non-recourse financing for certain of our solar PV projects currently in operation. The loan agreement provides for a \$14.1 million term loan credit facility and bears interest at a variable rate, with interest payments due in quarterly installments. The term loan matures on December 15, 2027, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2017, \$14.1 million was outstanding under the term loan. The variable rate for this loan at September 30, 2017 was 3.8%.

In September 2017, we entered into a construction-to-term loan agreement with a bank for use in providing recourse financing for a certain solar PV project under construction. The construction-to-term loan agreement provides for a \$3.1 million facility and bears interest at a fixed rate of 4.3% with interest payments due in monthly installments. The construction loan automatically converts to a term loan on October 1, 2018 and matures on October 1, 2038, with all remaining unpaid amounts outstanding under the agreement will be due at that time. At September 30, 2017, \$0.7 million was outstanding under the construction loan.

One loan with an outstanding balance as of September 30, 2017 totaling \$2.4 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, 2017 of \$33.5 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, 2016, we had outstanding \$108.0 million in aggregate principal amount under these loans. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 4.7% to 13.0%. These loans mature at various dates from 2017 to 2031. These construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of September 30, 2017 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 \$188.4 million and \$133.0 million in principal amounts at September 30, 2017 and December 31, 2016, 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.

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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 PV projects. In September 2016, we amended our agreement with the investor to provide for a maximum combined funding amount of \$100.0 million through June 30, 2017 on certain projects. In May 2017, we amended our agreement with the investor to extend the end date of the agreement to June 30, 2018. As of September 30, 2017, \$41.8 million remained available under the lending commitment. During the quarter ended September 30, 2017, we sold three solar PV projects and in return received \$9.2 million as part of this arrangement. One solar PV project was sold during the quarter ended September 30, 2016, for which \$6.0 million was received as part of this arrangement. Additionally, during the quarter ended March 31, 2017, we sold one solar PV project to a separate investor, not a party to the agreement, and in return received \$2.0 million as part of this arrangement. While we are required under GAAP to reflect these lease payments as liabilities on our consolidated balance sheet, they are generally non-recourse and not direct obligations of Ameresco, Inc., except that Ameresco, Inc. has guaranteed certain obligations relating to taxes and project warranties, operation and maintenance.

**Contractual Obligations**

The following table summarizes our significant contractual obligations and commitments as of September 30, 2017 (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	\$27,880	\$—	\$27,880	\$—	\$—
Term Loan	24,000	6,000	18,000	—	—
<b>Project Financing:</b>					
Construction and term loans	128,771	14,536	52,958	14,799	46,478
Federal ESPC liabilities(1)	188,422	—	188,422	—	—
Interest obligations(2)	65,229	9,780	16,217	12,271	26,961
Capital lease liabilities	28,489	3,589	7,826	6,150	10,924
Operating leases	25,867	5,250	8,243	5,532	6,842
<b>Total</b>	<b>\$488,658</b>	<b>\$39,155</b>	<b>\$319,546</b>	<b>\$38,752</b>	<b>\$91,205</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 be

(1) 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.

For both the revolving and term loan portions of our senior secured credit facility, the table above assumes that (2) the variable interest rate in effect at September 30, 2017 remains constant for the term of the facility. Excludes interest on construction loans payable and lines of credit due to no stated payment terms.

**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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of September 30, 2017, 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.

#### 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.

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## 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 6, “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, 2017, 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, 2016.

Item 2. Unregistered Sales of Equity and Use of Proceeds  
Stock Repurchase Program

The following table provides information as of and for the quarter ended September 30, 2017 regarding shares of our Class A common stock that were repurchased under our stock repurchase program authorized by the Board of Directors on April 27, 2016 (the “Repurchase Program”):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2017 - July 31, 2017	12,547	\$ 6.49	12,547	\$ 6,332,184
August 1, 2017 - August 31, 2017	77,622	6.92	77,622	5,794,654
September 1, 2017 - September 30, 2017	18,802	7.24	18,802	5,658,528
Total	108,971	\$ 6.93	108,971	\$ 5,658,528

Under the Repurchase Program, we are authorized to repurchase up to \$15.0 million of our Class A common stock, as increased by the Board of Directors in February 2017. Stock repurchases may be made from time to time through the open market and privately negotiated transactions. The amount and timing of any share repurchases will depend upon a variety of factors, including the trading price of our Class A common stock, liquidity, securities laws restrictions, other regulatory restrictions, potential alternative uses of capital, and market and economic conditions. The Repurchase Program may be suspended or terminated at any time without prior notice, and has no expiration date.

## 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.

Exhibit Index

Exhibit  
Number Description

- 10.1\* Letter Agreement dated May 25, 2017 to further modify the Seventh Amendment to the Lease between The Realty Associates Fund X, L.P., a Delaware limited partnership and Ameresco, Inc.
- 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, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Redeemable Non-Controlling Interests and Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.  
\*Filed herewith.  
+ Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of Ameresco participates.  
\*\*Furnished herewith.

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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 6, 2017 By: /s/ John R. Granara, III  
John R. Granara, III  
Executive Vice President  
and Chief Financial  
Officer  
(duly authorized and  
principal financial  
officer)