

Ameresco, Inc.  
Form 10-Q  
August 08, 2018  
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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 June 30, 2018

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 August 6, 2018 |
|--|---|
| Class A Common Stock, \$0.0001 par value per share | 27,747,511                              |
| 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 JUNE 30, 2018  
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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)

|  | June 30,<br>2018<br>(Unaudited) | December<br>31,<br>2017 |
|--|---------------------------------|-------------------------|
| <b>ASSETS</b>  |                                 |                         |
| Current assets:  |                                 |                         |
| Cash and cash equivalents  | \$ 27,952                       | \$ 24,262               |
| Restricted cash  | 15,103                          | 15,751                  |
| Accounts receivable, net   | 115,596                         | 85,121                  |
| Accounts receivable retainage, net   | 14,669                          | 17,484                  |
| Costs and estimated earnings in excess of billings   | 64,656                          | 104,852                 |
| Inventory, net   | 8,264                           | 8,139                   |
| Prepaid expenses and other current assets  | 14,853                          | 14,037                  |
| Income tax receivable  | 17,237                          | 6,053                   |
| Project development costs  | 16,095                          | 11,379                  |
| Total current assets   | 294,425                         | 287,078                 |
| Federal ESPC receivable  | 246,918                         | 248,917                 |
| Property and equipment, net  | 6,255                           | 5,303                   |
| Energy assets, net   | 404,888                         | 356,443                 |
| Goodwill   | 57,268                          | 56,135                  |
| Intangible assets, net   | 2,414                           | 2,440                   |
| Other assets   | 31,927                          | 27,635                  |
| Total assets   | \$ 1,044,095                    | \$ 983,951              |
| <b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>                      |                                 |                         |
| Current liabilities:   |                                 |                         |
| Current portions of long-term debt and capital lease liabilities                                       | \$ 27,451                       | \$ 22,375               |
| Accounts payable   | 115,805                         | 135,881                 |
| Accrued expenses and other current liabilities   | 22,800                          | 23,260                  |
| Billings in excess of cost and estimated earnings  | 19,907                          | 19,871                  |
| Income taxes payable   | 1,298                           | 755                     |
| Total current liabilities  | 187,261                         | 202,142                 |
| Long-term debt and capital lease liabilities, less current portions and net of deferred financing fees | 221,274                         | 173,237                 |
| Federal ESPC liabilities   | 238,617                         | 235,088                 |
| Deferred income taxes, net   | 8,505                           | 584                     |
| Deferred grant income  | 6,912                           | 7,188                   |
| Other liabilities  | 18,496                          | 18,754                  |
| Commitments and contingencies (Note 7)   |                                 |                         |
| Redeemable non-controlling interests   | 12,322                          | 10,338                  |



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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)

|   | June 30,<br>2018<br>(Unaudited) | December<br>31,<br>2017 |
|---|---------------------------------|-------------------------|
| Stockholders' equity:   |                                 |                         |
| Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2018 and December 31, 2017   | \$—                             | \$—                     |
| Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 29,818,008 shares issued and 27,732,511 shares outstanding at June 30, 2018, 29,406,315 shares issued and 27,533,049 shares outstanding at December 31, 2017 | 3                               | 3                       |
| Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at June 30, 2018 and December 31, 2017  | 2                               | 2                       |
| Additional paid-in capital  | 119,257                         | 116,196                 |
| Retained earnings   | 247,080                         | 235,844                 |
| Accumulated other comprehensive loss, net   | (4,063                          | ) (5,626 )              |
| Less - treasury stock, at cost, 2,085,497 shares at June 30, 2018 and 1,873,266 shares at December 31, 2017   | (11,571                         | ) (9,799 )              |
| Total stockholders' equity  | 350,708                         | 336,620                 |
| Total liabilities, redeemable non-controlling interests and stockholders' equity  | \$1,044,095                     | \$983,951               |

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



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AMERESCO, INC.  
 CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
 (in thousands, except share and per share amounts)  
 (Unaudited)

|  | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           |            | June 30,         |            |
|  | 2018               | 2017       | 2018             | 2017       |
| Revenues   | \$196,982          | \$166,665  | \$364,392        | \$301,275  |
| Cost of revenues   | 154,206            | 131,257    | 286,143          | 239,943    |
| Gross profit   | 42,776             | 35,408     | 78,249           | 61,332     |
| Selling, general and administrative expenses                           | 28,801             | 26,650     | 56,005           | 53,137     |
| Operating income   | 13,975             | 8,758      | 22,244           | 8,195      |
| Other expenses, net  | 3,966              | 1,738      | 7,510            | 3,564      |
| Income before provision (benefit) for income taxes                     | 10,009             | 7,020      | 14,734           | 4,631      |
| Income tax provision (benefit)   | 1,307              | 1,060      | (1,472)          | ) 415      |
| Net income   | 8,702              | 5,960      | 16,206           | 4,216      |
| Net (income) loss attributable to redeemable non-controlling interests | —                  | (129)      | ) (516)          | ) 971      |
| Net income attributable to common shareholders                         | \$8,702            | \$5,831    | \$15,690         | \$5,187    |
| Net income per share attributable to common shareholders:              |                    |            |                  |            |
| Basic  | \$0.19             | \$0.13     | \$0.35           | \$0.11     |
| Diluted  | \$0.19             | \$0.13     | \$0.34           | \$0.11     |
| Weighted average common shares outstanding:                            |                    |            |                  |            |
| Basic  | 45,470,000         | 45,463,000 | 45,469,000       | 45,488,000 |
| Diluted  | 46,406,000         | 45,675,000 | 46,272,000       | 45,601,000 |

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<br>Ended June 30, |         |
|---|--------------------------------|---------|
|   | 2018                           | 2017    |
| Net income  | \$8,702                        | \$5,960 |
| Other comprehensive income (loss):  |                                |         |
| Unrealized gain (loss) from interest rate hedges, net of tax (provision) benefit of \$20 and \$195, respectively  | 158                            | (331 )  |
| Foreign currency translation adjustments  | (435 )                         | 373     |
| Total other comprehensive income (loss)   | (277 )                         | 42      |
| Comprehensive income  | 8,425                          | 6,002   |
| Comprehensive (income) attributable to redeemable non-controlling interests                                       | —                              | (129 )  |
| Comprehensive income attributable to common shareholders  | \$8,425                        | \$5,873 |
|   | Six Months Ended<br>June 30,   |         |
|   | 2018                           | 2017    |
| Net income  | 16,206                         | 4,216   |
| Other comprehensive income (loss):  |                                |         |
| Unrealized gain (loss) from interest rate hedges, net of tax (provision) benefit of \$409 and \$147, respectively | 1,561                          | (129 )  |
| Foreign currency translation adjustments  | 2                              | 382     |
| Total other comprehensive income  | 1,563                          | 253     |
| Comprehensive income  | 17,769                         | 4,469   |
| Comprehensive (income) loss attributable to redeemable non-controlling interests                                  | (516 )                         | 971     |
| Comprehensive income attributable to common shareholders  | \$17,253                       | \$5,440 |

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 SIX MONTHS ENDED JUNE 30, 2018

(in thousands, except share amounts)

(Unaudited)

|  | Redeemable                   |                            | Class B<br>Common<br>Stock | Additional         |                      | Accumulated<br>Other  |           | Treasury Stock | Total      |
|--|------------------------------|----------------------------|----------------------------|--------------------|----------------------|-----------------------|-----------|----------------|------------|
|  | Non-Controlling<br>Interests | Class A<br>Common<br>Stock |                            | Paid-in<br>Capital | Retained<br>Earnings | Comprehensive<br>Loss | Shares    |                |            |
| Balance,<br>December 31,<br>2017   | \$ 10,338                    | 27,533,049                 | \$ 3 18,000,000            | \$ 2 \$ 116,196    | \$ 235,844           | \$ (5,626)            | 1,873,266 | \$ (9,799 )    | \$ 336,620 |
| Cumulative<br>impact from the<br>adoption of<br>ASU No.<br>2014-09 (Note<br>2) | —                            | —                          | — —                        | — —                | (4,454 )             | —                     | —         | —              | (4,454 )   |
| Exercise of<br>stock options   | —                            | 385,618                    | — —                        | — 2,101            | —                    | —                     | —         | —              | 2,101      |
| Stock-based<br>compensation<br>expense   | —                            | —                          | — —                        | — 747              | —                    | —                     | —         | —              | 747        |
| Employee<br>Stock Purchase<br>Plan   | —                            | 26,075                     | — —                        | — 213              | —                    | —                     | —         | —              | 213        |
| Open market<br>purchase of<br>common shares                                    | —                            | (212,231 )                 | — —                        | — —                | —                    | —                     | 212,231   | (1,772 )       | (1,772 )   |
| Unrealized gain<br>from interest<br>rate hedge, net                            | —                            | —                          | — —                        | — —                | —                    | 1,561                 | —         | —              | 1,561      |
| Foreign<br>currency<br>translation<br>adjustment                               | —                            | —                          | — —                        | — —                | —                    | 2                     | —         | —              | 2          |
| Contributions<br>from<br>redeemable<br>non-controlling<br>interests            | 1,673                        | —                          | — —                        | — —                | —                    | —                     | —         | —              | —          |
| Distributions to<br>redeemable<br>non-controlling<br>interests                 | (205 )                       | —                          | — —                        | — —                | —                    | —                     | —         | —              | —          |

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|                           |          |            |     |            |     |           |           |           |           |            |           |
|---------------------------|----------|------------|-----|------------|-----|-----------|-----------|-----------|-----------|------------|-----------|
| Net (loss)<br>income      | 516      | —          | —   | —          | —   | —         | 15,690    | —         | —         | —          | 15,690    |
| Balance, June<br>30, 2018 | \$12,322 | 27,732,511 | \$3 | 18,000,000 | \$2 | \$119,257 | \$247,080 | \$(4,063) | 2,085,497 | \$(11,571) | \$350,708 |

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)

|   | Six Months Ended June 30,<br>2018 | 2017     |
|---|-----------------------------------|----------|
| Cash flows from operating activities:   |                                   |          |
| Net income  | \$ 16,206                         | \$ 4,216 |
| Adjustments to reconcile net income (loss) to cash flows from operating activities: |                                   |          |
| Depreciation of energy assets   | 12,946                            | 10,220   |
| Depreciation of property and equipment  | 1,072                             | 1,336    |
| Amortization of deferred financing fees   | 838                               | 786      |
| Amortization of intangible assets   | 502                               | 716      |
| Provision for bad debts   | 303                               | 15       |
| Gain on sale of assets  | —                                 | (104)    |
| Unrealized gain (loss) on ineffectiveness of swaps                                  | (133)                             | (178)    |
| Stock-based compensation expense  | 747                               | 650      |
| Deferred income taxes   | 9,174                             | (1,867)  |
| Unrealized foreign exchange (gain) loss   | 900                               | (712)    |
| Changes in operating assets and liabilities:  |                                   |          |
| Accounts receivable   | (23,750)                          | 18,561   |
| Accounts receivable retainage   | 2,704                             | (779)    |
| Federal ESPC receivable   | (69,276)                          | (72,781) |
| Inventory, net  | (125)                             | 2,626    |
| Costs and estimated earnings in excess of billings                                  | 29,824                            | 4,101    |
| Prepaid expenses and other current assets   | 3,490                             | 906      |
| Project development costs   | (5,331)                           | (4,066)  |
| Other assets  | (1,380)                           | 406      |

|  |         |   |         |   |
|--|---------|---|---------|---|
| Accounts payable,<br>accrued expenses and<br>other current liabilities | (24,365 | ) | (15,720 | ) |
| Billings in excess of<br>cost and estimated<br>earnings                | (1,421  | ) | 212     |   |
| Other liabilities  | 578     |   | (60     | ) |
| Income taxes payable   | (10,640 | ) | 97      |   |
| Cash flows from<br>operating activities                                | (57,137 | ) | (51,419 | ) |
| Cash flows from<br>investing activities:                               |         |   |         |   |
| Purchases of property<br>and equipment                                 | (2,056  | ) | (1,231  | ) |
| Purchases of energy<br>assets  | (26,197 | ) | (51,393 | ) |
| Proceeds from sale of<br>assets of a business                          | —       |   | 2,777   |   |
| Acquisitions, net of<br>cash received                                  | (34,044 | ) | (2,409  | ) |
| Cash flows from<br>investing activities                                | (62,297 | ) | (52,256 | ) |

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)

|  | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
|  | 2018             | 2017      |
| Cash flows from financing activities:                            |                  |           |
| Payments of financing fees                                       | (2,285 )         | (1,614 )  |
| Proceeds from exercises of options and ESPP                      | 2,314            | 1,077     |
| Repurchase of common stock                                       | (1,772 )         | (2,269 )  |
| Proceeds from senior secured credit facility, net                | 6,100            | 13,200    |
| Proceeds from long-term debt financings                          | 58,634           | 41,565    |
| Proceeds from Federal ESPC projects                              | 69,664           | 74,036    |
| Proceeds from Federal ESPC energy assets                         | 690              | —         |
| Proceeds from sale-leaseback financings                          | —                | 21,454    |
| Contributions from redeemable non-controlling interests, net     | 1,468            | 1,421     |
| Payments on long-term debt                                       | (10,776 )        | (35,987 ) |
| Cash flows from financing activities                             | 124,037          | 112,883   |
| Effect of exchange rate changes on cash                          | (231 )           | (56 )     |
| Net increase in cash, cash equivalents, and restricted cash      | 4,372            | 9,152     |
| Cash, cash equivalents, and restricted cash, beginning of period | 60,105           | 52,826    |
| Cash, cash equivalents, and restricted cash, end of period       | \$64,477         | \$61,978  |
| Supplemental disclosures of cash flow information:               |                  |           |
| Cash paid for interest   | \$5,183          | \$5,711   |
| Cash paid for income taxes                                       | \$1,903          | \$2,371   |
| Non-cash Federal ESPC settlement                                 | \$66,798         | \$9,310   |
| Accrued purchases of energy assets                               | \$10,586         | \$8,606   |
| Conversion of revolver to term loan                              | \$25,000         | \$—       |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the total of the same such amounts shown above:

|  | Six Months     |          |
|--|----------------|----------|
|  | Ended June 30, |          |
|  | 2018           | 2017     |
| Cash and cash equivalents                            | \$27,952       | \$27,131 |
| Short-term restricted cash                           | 15,103         | 16,565   |
| Long-term restricted cash included in other assets   | 21,422         | 18,282   |
| Total cash and cash equivalents, and restricted cash | \$64,477       | \$61,978 |

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 services and products, that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. The Company’s comprehensive set of solutions 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 June 30, 2018, and for the three and six months ended June 30, 2018 and 2017, 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, 2017 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, 2017, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on March 7, 2018.

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 three investment funds formed to fund the purchase of solar energy systems, which are consolidated with the Company 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 2018 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 8.

**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 8. 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 June 30, 2018 and December 31, 2017, the Company classified the non-current portion of restricted cash of \$21,422 and \$20,092, 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:

|  | Six Months     |          |
|--|----------------|----------|
|  | Ended June 30, |          |
|  | 2018           | 2017     |
| Allowance for doubtful accounts, beginning of period | \$3,315        | \$7,836  |
| Charges to costs and expenses                        | 303            | 15       |
| Account write-offs and other                         | (159 )         | (3,945 ) |
| Allowance for doubtful accounts, end of period       | \$3,459        | \$3,906  |

During the year ended ended December 31, 2016, the Company reserved for certain assets related to a customer who declared bankruptcy. Of this amount, \$2,394 was recorded as an allowance for doubtful accounts in accounts receivable, net. During 2017 a settlement was reached with this customer and the Company has no additional exposure for the remaining receivables.

**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. No amounts were determined to be uncollectible as of June 30, 2018 and December 31, 2017.

**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.

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

(in thousands, except share and per share amounts)

## 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 to 36 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. Project development costs of \$2,948 and \$1,524 were included in other long-term assets as at June 30, 2018 and December 31, 2017, respectively.

## 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                             |

Gains or losses on disposal of property and equipment are reflected in selling, general and administrative expenses in the consolidated statements of income (loss).

## Energy Assets

Energy assets consist of costs of materials, direct labor, interest costs, outside contract services, deposits 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 (loss) on a straight line basis over the lives of the related assets or the terms of the related contracts.

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

Capitalized interest is included in 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 (loss) on a straight line basis over the useful life of the associated energy asset. There was \$744 and \$1,369 of interest capitalized for the three months ended June 30, 2018 and 2017, respectively. There was \$1,738 and \$2,527 of interest capitalized for the six months ended June 30, 2018 and 2017, respectively.

Routine maintenance costs are expensed in the current year's consolidated statements of income (loss) to the extent that they do not extend the life of the asset. Major maintenance, upgrades and overhauls are required for certain

components of the Company's assets. In these instances, the costs associated with these upgrades are capitalized and are depreciated over the shorter of the remaining life of the asset or the period until the next required major maintenance or overhaul.

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Included in energy assets are capital lease assets and accumulated depreciation of capital lease assets.

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 six months ended June 30, 2018 or June 30, 2017. 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 \$6,912 and \$7,188 recorded in the accompanying consolidated balance sheets as of June 30, 2018 and December 31, 2017, 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 13, 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 and intangible assets that have indefinite lives on an annual basis (December 31<sup>st</sup>) and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill requires significant judgment. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends, restructuring actions and projections of future results. The Company estimates the reporting units fair value and compares it with the carrying value of the reporting unit, including goodwill. If the fair value is greater than the carrying value of its reporting unit, no impairment is recorded. Fair value is determined using both an income approach and a market approach. The estimates and assumptions used in the Company's calculations include revenue growth rates, expense growth rates, expected capital expenditures to determine projected cash flows, expected tax rates and an estimated discount rate to determine present value of expected cash flows. These estimates are based on historical experiences, the Company's projections of future

operating activity and its weighted-average cost of capital. If the fair value is less than the carrying value, an impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The impairment charge would be recorded to earnings in the consolidated statements of income (loss). 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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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. The Company evaluates its intangible assets for impairment consistent with, and part of, their long-lived assets evaluation, as discussed in Energy Assets above.

See Note 5 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 fair value of derivatives determined to be assets, the non-current portion of project development costs, accounts receivable retainages, sale-leaseback deferred loss and deferred contract costs.

**Asset Retirement Obligations**

The Company recognizes a liability for the fair value of required asset retirement obligations (“AROs”) when such obligations are incurred. The liability is estimated on a number of assumptions requiring management’s judgment, including equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the consolidated statements of income (loss). As of June 30, 2018 and December 31, 2017, the Company had no ARO liabilities recorded.

**Federal ESPC Liabilities**

Federal ESPC liabilities, for both projects and energy assets, represent the advances received from third-party investors under agreements to finance certain ESPC projects with various federal government agencies.

For projects related to the construction or installation of certain energy savings equipment or facilities developed for the government customer, upon completion and acceptance of the project by the government, typically within 24 to 36 months of construction commencement, the ESPC receivable from the government and corresponding ESPC liability is eliminated from the Company’s consolidated balance sheet. Until recourse to the Company ceases for the ESPC receivables transferred to the investor, upon final acceptance of the work by the government customer, the Company remains the primary obligor for financing received.

For small-scale energy assets developed for the government customer that the Company owns and operates, upon final acceptance of the work by the government customer, the Company remains the primary obligor for financing received and the liability is eliminated from the Company’s consolidated balance sheet as contract payments assigned by the customer are transferred to the investor.

**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 whereas the investor has committed up to 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 six months ended June 30, 2017. No sale-leaseback agreements were entered into during the three and six months ended June 30, 2018. See below for a summary of solar PV project sales in prior year under our sale-leaseback agreements:

| Quarter Ended | # Solar PV Projects Sold (actual #'s) | Sale Price | Deferred Gain | Deferred Loss | Capital Lease | Initial Lease Term (years) | Minimum Lease | Maximum Lease |
|---------------|---------------------------------------|------------|---------------|---------------|---------------|----------------------------|---------------|---------------|
|---------------|---------------------------------------|------------|---------------|---------------|---------------|----------------------------|---------------|---------------|



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|                  |   | Recorded | Recorded | Asset/Liability | Recorded | Recorded | Recorded | Recorded | Recorded |
|------------------|---|----------|----------|-----------------|----------|----------|----------|----------|----------|
| June 30,<br>2017 | 4 | \$12,671 | \$ 932   | \$ 144          | \$ 5,774 | 20       |          | \$ 4     | \$ 252   |

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

For solar PV projects that the Company has determined not to be integral equipment, the Company then determines if the leaseback should be classified as a capital lease or an operating lease. All solar PV projects sold to date under the sale-leaseback program have been determined by the Company to be capital leases. For leasebacks classified as capital leases, the Company initially records a capital lease asset and capital lease obligation in its consolidated balance sheet equal to the lower of the present value of the Company’s future minimum leaseback payments or the fair value of the solar PV project. For capital leasebacks, the Company defers any gain or loss, representing the excess or shortfall of cash received from the investor compared to the net book value of the asset in the Company’s consolidated balance sheet at the time of the sale. The Company records the 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 sheet and amortizes the deferred amounts over the lease term in cost of revenues in its consolidated statements of income (loss). Net amortization expense in cost of revenues related to deferred gains and losses was \$(46) and \$(15) of net gains for the three months ended June 30, 2018 and 2017, respectively. Net amortization expense in cost of revenues related to deferred gains and losses was \$(105) and \$(24) of net gains for the six months ended June 30, 2018 and 2017, respectively.

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

|                                       | June 30, | December  |
|---------------------------------------|----------|-----------|
|                                       | 2018     | 31,       |
|                                       |          | 2017      |
| Capital lease assets, net             | \$36,690 | \$ 36,676 |
| Deferred loss, short-term, net        | 115      | 118       |
| Deferred loss, long-term, net         | 1,975    | 2,054     |
| Total deferred loss                   | \$2,090  | \$ 2,172  |
| Capital lease liabilities, short-term | 4,718    | 4,157     |
| Capital lease liabilities, long-term  | 29,425   | 30,712    |
| Total capital lease liabilities       | \$34,143 | \$ 34,869 |
| Deferred gain, short-term, net        | 318      | 338       |
| Deferred gain, long-term, net         | 5,467    | 5,835     |
| Total deferred gain                   | \$5,785  | \$ 6,173  |

**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 9 for additional disclosures.

Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606) using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded an adjustment to

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retained earnings on January 1, 2018 due to the cumulative impact of adopting Topic 606. See Note 3 "Revenue from Contracts with Customers" for the required disclosures related to the impact of adopting this standard and a discussion of the Company's updated policies related to revenue recognition discussed below.

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. Below is a description of the Company's primary lines of business.

**Projects** - The Company's principal service relates to energy efficiency projects, which entails the design, engineering and installation of, and assisting with the arranging of financing for an ever-increasing array of innovative technologies and techniques to improve the energy efficiency, and control the operation, of a building's energy- and water- consuming systems. In certain projects, the Company also designs and constructs for a customer a central plant or cogeneration system providing power, heat and/or cooling to a building, or a small-scale plant that produces electricity, gas, heat or cooling from renewable sources of energy.

Under Topic 606 requirements, the Company recognizes revenue from the installation or construction of projects over time using the cost-based input method. The Company uses the total costs incurred on the the project relative to the total expected costs to satisfy the performance obligation.

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 estimated loss in the period the loss becomes known.

**Operations & Maintenance ("O&M")** - After an energy efficiency or renewable energy project is completed, the Company often provides ongoing O&M services under a multi-year contract. These services include operating, maintaining and repairing facility energy systems such as boilers, chillers and building controls, as well as central power and other small-scale plants. For larger projects, the Company frequently maintains staff on-site to perform these services.

Maintenance revenue is recognized using the input method to recognize revenue. In most cases, O&M fees are fixed annual fees. Because the Company is on-site to perform O&M services, the services are typically a distinct series of promises, and those services have the same pattern of transfer to the customer (i.e., evenly over time), the Company records the revenue on a straight-line basis. Some O&M service contract fees are billed on time expended. In those cases, revenue is recorded based on the time expended in that month.

**Energy Assets** - The Company's service offerings also includes the sale of electricity, processed renewable gas fuel, heat or cooling from the portfolio of assets that the Company owns and operates. The Company has constructed and is currently designing and constructing a wide range of renewable energy plants using landfill gas ("LFG"), wastewater treatment biogas, solar, biomass, other bio-derived fuels, wind and hydro sources of energy. Most of the Company's renewable energy projects to date have involved the generation of electricity from solar PV and LFG or the sale of processed LFG. The Company purchases the LFG that otherwise would be combusted or vented, process it, and either sell it or use it in its energy plants. The Company has also designed and built, as well as own, operate and maintain, plants that take biogas generated in the anaerobic digesters of wastewater treatment plants and turn it into renewable natural gas that is either used to generate energy on-site or that can be sold through the nation's natural gas pipeline grid. Where the Company owns and operates energy producing assets, the Company typically enters into a long-term power purchase agreement ("PPA") for the sale of the energy. Many of the Company's energy assets also produce environmental attributes, commonly referred to as renewable energy credits ("RECs"). In most cases, the Company sells RECs under separate agreements with third parties other than the PPA customer.

The Company recognizes revenues from the sale and delivery of the energy output from renewable energy plants, over time as produced and delivered to the customer, in accordance with specific PPA contract terms. REC revenue is

recognized at a point time, when the RECs are transferred to the customer in accordance with the transfer protocols of the REC market that the Company operates in. In those cases where RECs are sold to the same customer as the energy output, the Company records revenue monthly for both the energy output and the REC output, as generated and delivered to the customer. =

Other - The Company's service and product offerings also include integrated-PV and consulting and enterprise energy management services.

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The Company recognizes revenues from delivery of engineering, consulting services and enterprise energy management services over time. For the sale of solar materials, revenue is recognized at a point in time when the Company has transferred physical control of the asset to the customer upon shipment.

To the extent a contract is deemed to have multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract.

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.

Cost of Revenues

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

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

Income Taxes

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

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

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

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

The Company has presented all deferred tax assets and liabilities as net and noncurrent on its consolidated balance sheet as of June 30, 2018 and December 31, 2017, respectively.

See Note 6 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 (loss).

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Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses, capital lease assets and liabilities, contingent considerations, short- and long-term, borrowings interest rate swaps, and commodity swaps. Because of their short maturity, the carrying amounts of cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable, accrued expenses, contingent considerations, and short-term borrowings approximate fair value.

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, commodity swaps, accounts payable, accrued expenses, capital lease assets and liabilities, contingent considerations, 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, contingent considerations, and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. 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 8.

The Company accounts for its interest rate and commodity 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 8 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 option grants, and employee stock purchases made via the Company's Employee Stock Purchase Plan (the "ESPP") using the fair value recognition provisions of accounting standards codification ("ASC") 718, Compensation - Stock Compensation ("ASC 718") 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 also recognized in association with employee stock purchases related to the Company's employee stock purchase plan.

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

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

The Company has no history of paying dividends. Additionally, as of each of the grant dates, there was no expectation that the Company would pay dividends over the expected life of the options. The expected life of the awards is estimated using historical data and management's expectations. The Company uses historical volatility as the expected volatility assumption required in the Black-Scholes model.



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 invested securities or the terms of the stock option, it may be

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necessary to accelerate, increase or cancel any remaining unamortized stock-based compensation expense. As a result of the adoption of ASU 2016-09 during Fiscal 2017, no significant changes were made to the Company's accounting for forfeitures. After this adoption 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.

For the three months ended June 30, 2018 and 2017, the Company recorded stock-based compensation expense, including expense related to the ESPP, of \$392 and \$307, respectively, in connection with the stock-based payment awards. For the six months ended June 30, 2018 and 2017, the stock-based compensation expense was \$747 and \$650, respectively. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options. As of June 30, 2018, there was \$3,478 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.3 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 six months ended June 30, 2018 or during the year ended December 31, 2017.

**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 June 30, 2018, the Company repurchased 100 shares of common stock in the amount of \$1. During the six months ended June 30, 2018, the Company repurchased 212,231 shares of common stock in the amount of \$1,772, including fees of \$9. During the year ended December 31, 2017, the Company repurchased 574,848 shares of common stock in the amount of \$3,412, including fees of \$23.

**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 and commodity rates. These instruments are subject to various credit and market risks. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. The Company seeks to manage credit risk by entering into financial instrument transactions only through counterparties that the Company believes to be creditworthy.

Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates and commodity prices and rates. The Company seeks to manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. As a matter of policy, the Company does not use derivatives for speculative purposes. The Company considers the use of derivatives with all financing

transactions to mitigate risk.

The Company recognizes cash flows from derivative instruments as operating activities in the consolidated statements of cash flows. The effective portion of changes in fair value on interest rate swaps designated as cash flow hedges are recognized in the Company's consolidated statements of comprehensive income (loss). The ineffective portion of changes in fair value on interest rate swaps designated as hedges and changes in fair value on interest rate swaps not designated as hedges are recognized in the Company's consolidated statements of income (loss).

See Notes 8 and 9 for additional information on the Company's derivative instruments.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## 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<br>Ended June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2018                           | 2017       | 2018                         | 2017       |
| Net income attributable to common shareholders | \$8,702                        | \$ 5,831   | \$15,690                     | \$ 5,187   |
| Basic weighted-average shares outstanding      | 45,470,000                     | 46,463,000 | 45,469,000                   | 45,488,000 |
| Effect of dilutive securities:                 |                                |            |                              |            |
| Stock options                                  | 936,000                        | 212,000    | 803,000                      | 113,000    |
| Diluted weighted-average shares outstanding    | 46,406,000                     | 46,675,000 | 46,272,000                   | 45,601,000 |

For the three months ended June 30, 2018 and 2017, 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 1,330,000 and 2,641,897. For the six months ended June 30, 2018 and 2017, 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 1,515,000 and 2,749,102.

## 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 variable interest entity is an entity used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors who are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. Upon the occurrence of certain events outlined in ASC 810, the Company reassesses its initial determination of whether the partnership or joint venture is a VIE.

The Company also evaluates whether it is the primary beneficiary of each VIE and consolidates the VIE if the Company has both (a) the power to direct the economically significant activities of the entity and (b) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining whether it qualifies as the primary beneficiary. The Company also considers all parties that have direct or implicit variable interests when determining whether it is the primary beneficiary. When the Company is determined to be the primary beneficiary, the VIE is consolidated. As required by ASC 810, management's assessment of whether the Company is the primary beneficiary of a VIE is continuously performed. See Note 10 for additional disclosures.

## 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. In June 2018, the Company formed a third 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 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 consolidated balance sheet.

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

(in thousands, except share and per share amounts)

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 (loss) 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 (loss) 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 11 for additional disclosures.

Recent Accounting Pronouncements

Derivatives and Hedging

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.

Leases

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 new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company will adopt the guidance in the first quarter of 2019, electing to adopt the guidance using the modified retrospective approach. The Company is in the process of its preliminary evaluation, and assessing the impact on the consolidated financial statements, with an anticipated completion date of December 31, 2018.

Stock Based Compensation Expense

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 adopted these requirements on January 1, 2018. The adoption had no impact on the Company’s consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of current stock compensation recognition standards to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 will become effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of ASU 2014-09 (Topic 606), which the Company adopted on January 1,

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

2018. The Company adopted ASU 2018-07 during the second quarter of 2018. The adoption had little to no impact on the Company's consolidated financial statements, as the Company currently has not issued share-payments to non-employees.

**Consolidated Statements of Cash Flow**

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 adopted these requirements on January 1, 2018. The adoption had no impact on the Company's 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 has adopted this guidance as of January 1, 2018 and the consolidated statement of cash flow has been prepared to conform with ASU 2016-18 for all periods presented.

**Accumulated Other Comprehensive Income**

In February 2018, the Financial Accounting Standard Board ("FASB") issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to allow entities to reclassify the income tax effects of tax reform legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact ASU 2018-02 on its consolidated financial statements.

**Business Combinations**

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS**

**Adoption**

On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers," (Topic 606) using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net decrease to beginning retained earnings of \$4,454 on January 1, 2018 due to the cumulative



impact of adopting Topic 606, as detailed below.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

| (in thousands)                                     | January 1, 2018 |                 |                   |
|--|-----------------|-----------------|-------------------|
|  | As Reported     | 606 Adjustments | Adjusted Balances |
| <b>Assets:</b>                                     |                 |                 |                   |
| Costs and estimated earnings in excess of billings | \$ 104,852      | \$ (9,194 )     | \$ 95,658         |
| Prepaid expenses and other current assets          | 14,037          | 4,343           | 18,380            |
| Deferred income taxes, net                         | —               | 1,003           | 1,003             |
| <b>Liabilities:</b>                                |                 |                 |                   |
| Accrued expenses and other current liabilities     | 23,260          | 1,190           | 24,450            |
| Deferred income taxes, net                         | 584             | (584 )          | —                 |
| <b>Shareholders' Equity:</b>                       |                 |                 |                   |
| Retained earnings                                  | 235,844         | (4,454 )        | 231,390           |

In accordance with Topic 606, the disclosure of the impact of adoption to the Company's condensed consolidated statements of income (loss) and balance sheets was as follows:

| (in thousands, except per share amounts)                          | Impact of changes in accounting policies |  |                                 |                                |  |                                 |
|---|--|--|---------------------------------|--------------------------------|--|---------------------------------|
|   | Three Months Ended June 30, 2018         |  |                                 | Six Months Ended June 30, 2018 |  |                                 |
|   | As Reported                              | Balances without adoption of Topic 606 | Effect of Change Higher/(Lower) | As Reported                    | Balances without adoption of Topic 606 | Effect of Change Higher/(Lower) |
| Revenues  | \$ 196,982                               | \$ 194,698                             | \$ 2,284                        | \$ 364,392                     | \$ 362,937                             | \$ 1,455                        |
| Cost of revenues  | 154,206                                  | 150,336                                | 3,870                           | 286,143                        | 284,497                                | 1,646                           |
| Gross profit  | 42,776                                   | 44,362                                 | (1,586 )                        | 78,249                         | 78,440                                 | (191 )                          |
| <b>Operating expenses:</b>  |  |  |                                 |                                |  |                                 |
| Selling, general and administrative expenses                      | 28,801                                   | 28,801                                 | —                               | 56,005                         | 56,005                                 | —                               |
| Operating income  | 13,975                                   | 15,561                                 | (1,586 )                        | 22,244                         | 22,435                                 | (191 )                          |
| Other expenses, net   | 3,966                                    | 3,966                                  | —                               | 7,510                          | 7,510                                  | —                               |
| Income before benefit for income taxes                            | 10,009                                   | 11,595                                 | (1,586 )                        | 14,734                         | 14,925                                 | (191 )                          |
| Income tax (benefit) provision                                    | 1,307                                    | 1,641                                  | (334 )                          | (1,472 )                       | (1,453 )                               | (19 )                           |
| Net income  | 8,702                                    | 9,954                                  | (1,252 )                        | 16,206                         | 16,378                                 | (172 )                          |
| Net (income) attributable to redeemable non-controlling interests | —  | —                                      | —                               | (516 )                         | (516 )                                 | —                               |
| Net income attributable to common shareholders                    | \$ 8,702                                 | \$ 9,954                               | \$ (1,252 )                     | \$ 15,690                      | \$ 15,862                              | \$ (172 )                       |
| Basic income per share  | \$ 0.19                                  | \$ 0.22                                | \$ (0.03 )                      | \$ 0.35                        | \$ 0.35                                | \$ —                            |
| Diluted income per share  | \$ 0.19                                  | \$ 0.21                                | \$ (0.02 )                      | \$ 0.34                        | \$ 0.34                                | \$ —                            |

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

| (in thousands)                                     | June 30, 2018 |  |                                 |
|--|---------------|--|---------------------------------|
|  | As Reported   | Balances without adoption of Topic 606 | Effect of Change Higher/(Lower) |
| Assets:  |               |  |                                 |
| Costs and estimated earnings in excess of billings | \$ 64,656     | \$ 72,397                              | \$ (7,741 )                     |
| Prepaid expenses and other current assets          | 14,853        | 11,798                                 | 3,055                           |
| Liabilities:                                       |               |  |                                 |
| Accrued expenses and other current liabilities     | 22,800        | 21,252                                 | 1,548                           |
| Deferred income taxes, net                         | 8,505         | 10,112                                 | (1,607 )                        |
| Shareholders' Equity:                              |               |  |                                 |
| Retained earnings                                  | 247,080       | 251,707                                | (4,627 )                        |

The impact in revenue recognition due to the adoption of Topic 606 is primarily from the timing of revenue recognition for uninstalled materials, amortization of contract acquisition costs over the contract term, and timing of revenue recognition from renewable energy credits. Refer to Note 2 Summary of Significant Accounting Policies for a summary of the Company's significant policies for revenue recognition.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## Disaggregation of Revenue

The following table provides information about disaggregated revenue by line of business, reportable segments, and geographical region for the three and six months ended June 30, 2018.

|                                  | US<br>Regions | U.S.<br>Federal | Canada   | Non-Solar<br>DG | All<br>Other | Total     |
|----------------------------------|---------------|-----------------|----------|-----------------|--------------|-----------|
| Line of Business                 |               |                 |          |                 |              |           |
| Three Months Ended June 30, 2018 |               |                 |          |                 |              |           |
| Project revenue                  | \$80,877      | \$47,437        | \$5,317  | \$1,201         | \$4,200      | \$139,032 |
| O&M revenue                      | 4,069         | 9,566           | —        | 2,258           | —            | 15,893    |
| Energy assets                    | 3,799         | 1,140           | 1,017    | 16,501          | 335          | 22,792    |
| Other                            | 33            | 71              | 1,624    | (39)            | 17,576       | 19,265    |
| Total revenues                   | \$88,778      | \$58,214        | \$7,958  | \$19,921        | \$22,111     | \$196,982 |
| Six months ended June 30, 2018   |               |                 |          |                 |              |           |
| Project revenue                  | \$146,317     | \$85,275        | \$12,253 | \$2,100         | \$4,770      | \$250,715 |
| O&M revenue                      | 7,964         | 18,744          | 19       | 4,254           | —            | 30,981    |
| Energy assets                    | 8,780         | 1,909           | 1,383    | 31,615          | 599          | 44,286    |
| Other                            | 408           | 71              | 3,207    | 69              | 34,655       | 38,410    |
| Total revenues                   | \$163,469     | \$105,999       | \$16,862 | \$38,038        | \$40,024     | \$364,392 |

## Geographical Regions

## Three Months Ended June 30, 2018

|                |          |          |         |          |          |           |
|----------------|----------|----------|---------|----------|----------|-----------|
| United States  | \$88,778 | \$58,214 | \$648   | \$19,921 | \$17,543 | \$185,104 |
| Canada         | —        | —        | 7,310   | —        | 173      | 7,483     |
| Other          | —        | —        | —       | —        | 4,395    | 4,395     |
| Total revenues | \$88,778 | \$58,214 | \$7,958 | \$19,921 | \$22,111 | \$196,982 |

## Six months ended June 30, 2018

|                |           |           |          |          |          |           |
|----------------|-----------|-----------|----------|----------|----------|-----------|
| United States  | \$163,469 | \$105,999 | \$1,168  | \$38,038 | \$33,891 | \$342,565 |
| Canada         | —         | —         | 15,694   | —        | 228      | 15,922    |
| Other          | —         | —         | —        | —        | 5,905    | 5,905     |
| Total revenues | \$163,469 | \$105,999 | \$16,862 | \$38,038 | \$40,024 | \$364,392 |

## Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

|  | January<br>1, 2018 | June 30,<br>2018 |
|--|--------------------|------------------|
| Accounts receivable, net                           | \$85,121           | \$115,596        |
| Accounts receivable retainage, net                 | 17,484             | 14,669           |
| Contract Assets:                                   |                    |                  |
| Costs and estimated earnings in excess of billings | 95,658             | 64,656           |
| Contract Liabilities:                              |                    |                  |
| Billings in excess of cost and estimated earnings  | 27,248             | 27,254           |

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.  
Unbilled

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

revenue, presented as costs and estimated earnings in excess of billings, represent amounts earned and billable that were not invoiced at the end of the fiscal period.

Contract assets represent the Company's rights to consideration in exchange for services transferred to a customer that have not been billed as of the reporting date. The Company's rights to consideration are generally unconditional at the time its performance obligations are satisfied.

At the inception of a contract, the Company expects the period between when it satisfies its performance obligations, and when the customer pays for the services, will be one year or less. As such, the Company has elected to apply the practical expedient which allows the Company to not adjust the promised amount of consideration for the effects of a significant financing component, when a financing component is present.

When the Company receives consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract, the Company records deferred revenue, which represents a contract liability. Such deferred revenue typically results from billings in excess of costs incurred and advance payments received on project contracts. As of June 30, 2018, the Company classified \$7,347 as a non-current liability, included in other liabilities on the consolidated balance sheets, for those performance obligations expected to be completed beyond the next twelve months.

The decrease in contract assets for the six months ended June 30, 2018 was primarily due to billings of approximately \$285,321, offset in part by revenue recognized of \$236,327. The change in contract liabilities was primarily driven by the receipt of advance payments from customers, and related billings, exceeding reductions from recognition of revenue as performance obligations were satisfied. For the six months ended June 30, 2018, the Company recognized revenue of \$60,492, and billed customers \$50,119, that was previously included in the beginning balance of contract liabilities. Changes in contract liabilities are also driven by reclassifications to or from contract assets as a result of timing of customer payments.

Contracts are often modified for a change in scope or other requirements. The Company considers contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing performance obligations. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase or decrease) on a cumulative catchup basis.

The Company elected to utilize the modified retrospective transition practical expedient which allows the Company to evaluate the impact of contract modifications as of the adoption date rather than evaluating the impact of the modifications at the time they occurred prior to the adoption date.

**Performance obligations**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC Topic 606. Performance obligations are satisfied as of a point in time or over time and are supported by contracts with customers. For most of the Company's contracts, there are multiple promises of goods or services. Typically, the Company provides a significant service of integrating a complex set of tasks and components such as design, engineering, construction management, and equipment procurement for a project contract. The bundle of goods and services are provided to deliver one output for which the customer has contracted. In these cases, the Company considers the bundle of goods and services to be a single performance obligation. The Company may also promise to provide distinct goods or services within a contract, such as a project contract for installation of energy conservation measures and post-installation O&M services. In these cases the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation.

Backlog - The Company's remaining performance obligations (hereafter referred to as "backlog") represent the unrecognized revenue value of the Company's contract commitments. The Company's backlog may vary significantly each reporting period based on the timing of major new contract commitments and the backlog may fluctuate with currency movements. In addition, our customers have the right, under some circumstances, to terminate contracts or defer the timing of the Company's services and their payments to us. At June 30, 2018, the Company had backlog of approximately \$1,575,000. Approximately 26% of our June 30, 2018 backlog is anticipated to be recognized as revenue in the next twelve months and the remaining, thereafter.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

The Company has applied the practical expedient for certain revenue streams to exclude the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which the Company recognizes revenue in proportion to the amount it has the right to invoice for services performed.

Contract acquisition costs:

In connection with the adoption of Topic 606, the Company is required to account for certain acquisition cost over the life of the contract, consisting primarily of commissions when paid. Commission costs are incurred commencing at contract signing. Commission costs are allocated across all performance obligations and deferred and amortized over the contract term on a progress towards completion basis.

As of January 1, 2018, the Company capitalized \$927 in commission costs related to contracts that were not completed. For contracts that have a duration of less than one year, the Company follows a practical expedient and expenses these costs when incurred. During the three and six months ended June 30, 2018, the amortization of commission costs related to contracts were not material and have been included in the accompanying consolidated statements of income (loss). Additionally, no impairment charges in connection with the Company's commission costs or project development costs were recorded during the period ended June 30, 2018.

The Company analyzed the impact of adoption of Topic 606 on the Company's project development costs and determined no change in the Company's accounting policy was required. In the three and six months ended June 30, 2018, \$3,570 and \$6,010, respectively, of project development costs were recognized in the consolidated statement of income (loss) on projects that converted to customer contracts.

#### 4. 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 as set forth in the table below. The excess purchase price over the estimated fair value of the net assets, which are calculated using level 3 inputs per the fair value hierarchy as defined in Note 8, acquired has been recorded as goodwill. Intangible assets, if identified, have been recorded and are being amortized over periods ranging from one to fifteen years. See Note 5 for additional information.

Determining the fair value of certain assets and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions. Certain amounts below are provisional based on our best estimates using information available as of the reporting date. The Company is waiting for information to become available to finalize its valuation of certain elements of this transaction. Specifically, the assigned values for energy assets, intangibles, and goodwill are provisional in nature and subject to change upon the completion of the final valuation of such elements. 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.

During the six months ended June 30, 2018, the Company acquired one solar project for total consideration \$20,770, of which \$1,307 will be paid upon final completion which the Company expects will be in 2019. The Company also entered into a definitive agreement to acquire another solar project from the same developer. The total consideration for this solar project is \$32,900. For both projects, as of June 30, 2018, the Company has paid \$32,000 to the developer of the projects. As of June 30, 2018, the \$32,000 is included in project assets on the consolidated balance sheet.

During the three months ended June 30, 2018, the Company completed an acquisition with a total purchase price of \$2,326, of which, \$1,901 has been paid to date. The remaining balance is attributed to a contingent consideration holdback. No debt was assumed or cash acquired in the transaction. The pro forma effects of these acquisitions on our operations were not material.





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A summary of the cumulative consideration paid and the allocation of the purchase price of all of the acquisitions in each respective year is as follows:

|   |          |         |
|---|----------|---------|
|   | 2018     | 2017    |
| Accounts receivable                       | \$353    | \$—     |
| Prepaid expenses and other current assets | —        | 256     |
| Property and equipment and energy assets  | 20,770   | 7,788   |
| Intangibles                               | 500      | —       |
| Goodwill                                  | 1,431    | —       |
| Accounts payable                          | (42 )    | —       |
| Purchase price                            | \$23,096 | \$8,044 |
| Total, net of cash received               | \$23,096 | \$8,044 |
| Debt assumed                              | \$—      | \$5,635 |
| Total fair value of consideration         | \$23,096 | \$2,409 |

The results of the acquired assets since the dates of the acquisitions have been included in the Company's operations as presented in the accompanying consolidated statements of income (loss), consolidated statements of comprehensive income (loss) and consolidated statements of cash flows.

During the six months ended June 30, 2018, the Company entered into a definitive agreement to acquire 4 solar projects from another developer. The total consideration for these solar projects is \$16,100. To date the Company has paid \$3,000 for these projects. As of June 30, 2018, \$3,000 is included in project assets on the consolidated balance sheet.

## 5. GOODWILL AND INTANGIBLE ASSETS

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

|  | U.S.<br>Regions | U.S.<br>Federal | Canada    | Non-solar<br>DG | Other     | Total     |
|--|-----------------|-----------------|-----------|-----------------|-----------|-----------|
| Balance, December 31, 2017                                 | \$24,759        | \$3,375         | \$3,494   | \$—             | —\$24,507 | \$56,135  |
| Goodwill acquired during the year                          | —               | 1,431           | —         | —               | —         | 1,431     |
| Currency effects   | —               | —               | (157 )    | —               | (141 )    | (298 )    |
| Balance, June 30, 2018                                     | \$24,759        | \$4,806         | \$3,337   | \$—             | —\$24,366 | \$57,268  |
| Accumulated Goodwill Impairment Balance, December 31, 2017 | \$—             | \$—             | \$(1,016) | \$—             | —\$—      | \$(1,016) |
| Accumulated Goodwill Impairment Balance, June 30, 2018     | \$—             | \$—             | \$(1,016) | \$—             | —\$—      | \$(1,016) |

The Company completed an acquisition during the three months ended June 30, 2018 which resulted in a \$1,431 increase in goodwill.

Since the Company's annual goodwill impairment test there have been no events that would have triggered a need for an interim impairment test.

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.

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



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intangible asset. The Company completed an acquisition during the three months ended June 30, 2018 which resulted in a \$500 increase in customer relationships. This will be amortized over an eight year period.

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

|                          | As of<br>June<br>30,<br>2018 | As of<br>December<br>31,<br>2017 |
|--------------------------|------------------------------|----------------------------------|
| Gross Carrying Amount    |                              |                                  |
| Customer contracts       | \$7,720                      | \$ 7,786                         |
| Customer relationships   | 12,252                       | 11,863                           |
| Non-compete agreements   | 3,038                        | 3,052                            |
| Technology               | 2,728                        | 2,751                            |
| Trade names              | 543                          | 546                              |
|                          | 26,281                       | 25,998                           |
| Accumulated Amortization |                              |                                  |
| Customer contracts       | 7,720                        | 7,786                            |
| Customer relationships   | 9,941                        | 9,557                            |
| Non-compete agreements   | 3,036                        | 3,048                            |
| Technology               | 2,645                        | 2,642                            |
| Trade names              | 525                          | 525                              |
|                          | 23,867                       | 23,558                           |
| Intangible assets, net   | \$2,414                      | \$ 2,440                         |

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). Amortization expense for the three months ended June 30, 2018 and 2017 related to customer contracts was \$0 and \$8, respectively. Amortization expense for the six months ended June 30, 2018 and 2017 related to customer contracts was \$0 and \$15, respectively. Amortization expense for the three months ended June 30, 2018 and 2017 related to all other acquired intangible assets was \$249 and \$328, respectively. Amortization expense for the six months ended June 30, 2018 and 2017 related to all other acquired intangible assets was \$502 and \$701, respectively.

**6. INCOME TAXES**

The provision for income taxes was \$1,307 and \$1,060 for the three months ended June 30, 2018 and 2017, respectively. The provision (benefit) for income taxes was \$(1,472) and \$415 for the six months ended June 30, 2018 and 2017, respectively. The estimated 2018 effective tax rate is 13.1% for the three months ended June 30, 2018 compared to a 15.1% estimated annual effective tax rate for the three months ended June 30, 2017. The estimated 2018 effective tax rate was (10.0)% for six months ended June 30, 2018 compared to a 9% estimated annual effective tax rate for the six months ended June 30, 2017.

The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2018 were the effects of a \$4,600 benefit of the 2017 Section 179D deduction, which was extended in February 2018 and treated as a discrete event in the year to date period, and the use of investment tax credits to which the Company is entitled from owned plants. 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 from owned plants. The investment tax credits and production tax credits 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. As part of the Bipartisan Budget Act signed into law on

February 9, 2018 the Section 179D deduction for 2017 was retroactively extended. The Section 179D deduction expired on December 31, 2017.

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

|  | Gross<br>Unrecognized<br>Tax Benefits |
|--|---------------------------------------|
| Balance, December 31, 2017             | \$ 600                                |
| Additions for prior year tax positions | —                                     |
| Settlements with tax authorities       | —                                     |
| Reductions of prior year tax positions | —                                     |
| Balance, June 30, 2018                 | \$ 600                                |

At June 30, 2018 and December 31, 2017, the Company had approximately \$600 of total gross unrecognized tax benefits. At June 30, 2018 and December 31, 2017, the Company had approximately \$80 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 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Legislation. The Company has recognized the provisional tax impacts related to the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. As of December 31, 2017, the Company has substantially completed its accounting for the tax effects of the 2017 Tax Act. If revisions are needed as new information becomes available, the final determination of the deemed re-measurement of the Company’s deferred assets and liabilities, the deemed mandatory repatriation or other applicable provisions of the Tax Legislation will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act.

**7. COMMITMENTS AND CONTINGENCIES****Legal Proceedings**

The Company also 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.

**Commitments as a Result of Acquisitions**

Related to the Company's acquisition of EEX in the second quarter of 2014, the former owners of EEX (See note 4), who are now employees of the Company, may be entitled to receive up to 4,500 GBP (\$5,941 converted as of June 30, 2018) 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 June 30, 2018 and December 31, 2017, respectively, as milestones are not considered likely to be achieved.

During the three months ended June 30, 2018, the Company completed an acquisition which provided for a \$425 cash consideration holdback contingent upon the Company collecting certain acquired receivables. The contingent consideration will be paid fifteen months from the completion of the acquisition and is recorded in the other liabilities line on the consolidated balance sheets.



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## 8. 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 |          |
|----------------------------------|------------------|----------|
|                                  | June             | December |
|                                  | 30,              | 31,      |
| Level                            | 2018             | 2017     |
| Assets:                          |                  |          |
| Interest rate swap instruments 2 | \$1,298          | \$ 233   |
| Commodity swap instruments 2     | 21               | —        |
| Total assets                     | \$1,319          | \$ 233   |
| Liabilities:                     |                  |          |
| Interest rate swap instruments 2 | \$2,414          | \$ 3,529 |
| Commodity swap instruments 2     | 66               | —        |
| Total liabilities                | \$2,480          | \$ 3,529 |

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 the Company's commodity swaps was determined using a cash flow analysis on the expected cash flow of the contract in combination with observable forward price inputs obtained from a third-party pricing source. As part of this valuation, the Company considered the credit ratings of the counterparties to the commodity 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. At June 30, 2018 and December 31, 2017 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 level two for the six months ended June 30, 2018 and the year ended December 31, 2017. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt, excluding capital leases, are as follows:

|                     |                            |
|---------------------|----------------------------|
| As of June 30, 2018 | As of December 31,<br>2017 |
|---------------------|----------------------------|



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|                                | Fair<br>Value | Carrying<br>Value | Fair<br>Value | Carrying<br>Value |
|--------------------------------|---------------|-------------------|---------------|-------------------|
| Long-term debt value (Level 2) | \$214,553     | \$214,508         | \$160,108     | \$160,598         |

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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 June 30, 2018 or December 31, 2017.

## 9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At June 30, 2018 and December 31, 2017, the following table presents information about the fair value amounts of the Company's derivative instruments is as follows:

|  | Derivatives as of<br>June 30, 2018 |            | December 31, 2017      |            |
|--|------------------------------------|------------|------------------------|------------|
|  | Balance Sheet Location             | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives Designated as Hedging Instruments:     |                                    |            |                        |            |
| Interest rate swap contracts                       | Other assets                       | \$1,251    | Other assets           | \$233      |
| Interest rate swap contracts                       | Other liabilities                  | \$2,162    | Other liabilities      | \$3,529    |
| Derivatives Not Designated as Hedging Instruments: |                                    |            |                        |            |
| Interest rate swap contracts                       | Other assets                       | \$47       | Other assets           | \$—        |
| Interest rate swap contracts                       | Other liabilities                  | \$252      | Other liabilities      | \$—        |
| Commodity swap contracts                           | Other assets                       | \$21       | Other assets           | \$—        |
| Commodity swap contracts                           | Other liabilities                  | \$66       | Other liabilities      | \$—        |

All but five of the Company's derivatives were designated as hedging instruments as of June 30, 2018 and all but one of the Company's derivatives were designated as hedging instruments as of December 31, 2017.

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

|   | Location of Gain Recognized in Net<br>Income (Loss) | Amount of Gain Recognized<br>in Net Income (Loss) |        |                        |         |
|---|---|---|--------|------------------------|---------|
|   |   | Three<br>Months                                   |        | Six Months             |         |
|   |   | Ended June<br>30,<br>2018                         | 2017   | Ended June 30,<br>2018 | 2017    |
| Derivatives Designated as Hedging<br>Instruments:     |   |   |        |                        |         |
| Interest rate swap contracts                          | Other expenses, net                                 | \$(31)  | \$(55) | \$(133)                | \$(178) |
| Derivatives not Designated as Hedging<br>Instruments: |   |   |        |                        |         |
| Interest rate swap contracts                          | Other expenses, net                                 | \$(61)  | \$—    | \$(73)                 | \$—     |
| Commodity swap contracts                              | Other expenses, net                                 | \$45  | \$—    | \$45                   | \$—     |

Six  
Months  
Ended  
June 30,  
2018

Derivatives Designated as Hedging Instruments:

Accumulated loss in AOCI at the beginning of the period \$(1,745)

|  |          |
|--|----------|
| Unrealized gain recognized in AOCI                 | 1,689    |
| Gain reclassified from AOCI to other expenses, net | (125 )   |
| Accumulated loss in AOCI at the end of the period  | \$(181 ) |

Interest Rate Swaps

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

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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. As a result \$566 was reclassified from accumulated other comprehensive loss and recorded as a reduction to other expenses, net in the Company's consolidated statements of income (loss) during the second quarter of 2014. During the second quarter 2018, this swap was de-designated hedge as a result of the expected pay down of the associated hedged debt principal. As a result, \$34 was reclassified from accumulated other comprehensive loss and recorded to other expenses, net in the Company's consolidated statements of income (loss) during the six months ended June 30, 2018.

In June 2018, the company entered into a fifteen-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 return 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 \$10,000 variable rate note at a fixed rate of 3.19%, with an effective date of June 2018 and expires in June 2033. This interest swap has been designated as a hedging instrument.

In February 2018, the Company entered into a three-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 \$17,100 at a fixed interest rate of 2.45% with an effective date of March 29, 2018, and expires in December 2020. This interest swap is not designated as a hedging instrument.

**Commodity Swaps**

In March 2018, the company entered into a one-year commodity swap contract under which the Company agreed to pay an amount equal to a specified fixed rate for natural gas times a notional volume amount, and to in turn receive an amount equal to a specified variable rate for natural gas times the same notional volume amount. The swap covers an initial notional volume amount of 323,390 million British thermal units, ("MMBtus") of natural gas at a fixed rate of \$2.84 per MMBtu, with an effective date of May 2018 and expires in April 2019. This commodity swap is not designated as a hedging instrument.

In April 2018, the company entered into a one-year commodity swap contract under which the Company agreed to pay an amount equal to a specified fixed rate for natural gas times a notional volume amount, and to in turn receive an amount equal to a specified variable rate for natural gas times the same notional volume amount. The swap covers an initial notional volume amount of 437,004 MMBtus of natural gas at a fixed rate of \$2.68 per MMBtu, with an effective date of May 2019 and expires in April 2020. This commodity swap is not designated as a hedging instrument.

In April 2018, the company entered into a one-year commodity swap contract under which the Company agreed to pay an amount equal to a specified fixed rate for natural gas times a notional volume amount, and to in turn receive an amount equal to a specified variable rate for natural gas times the same notional volume amount. The swap covers an initial notional volume amount of 435,810 MMBtus of natural gas at a fixed rate of \$2.70 per MMBtu, with an effective date of May 2020 and expires in April 2021. This commodity swap is not designated as a hedging instrument.

**10. 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. During the second quarter of 2018, the Company formed an additional investment fund for the purpose of funding the purchase of a solar energy systems. 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.

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

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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.

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

|  | June<br>30,<br>2018 | December<br>31,<br>2017 |
|--|---------------------|-------------------------|
| Cash   | \$ 763              | \$ 444                  |
| Restricted cash                                    | 1,623               | 1,553                   |
| Accounts receivable                                | 448                 | 328                     |
| Costs and estimated earnings in excess of billings | 539                 | 360                     |
| Prepaid expenses and other current assets          | 140                 | 8                       |
| Energy assets, net                                 | 73,401              | 55,712                  |
| Accounts payable                                   | 181                 | 764                     |
| Accrued liabilities                                | 19                  | 74                      |
| Other liabilities                                  | 86                  | 75                      |
| Long term debt, net deferred finance fees          | 10,882              | —                       |

**11. 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 Company's wholly owned subsidiary with a membership interest in the investment fund formed in the second quarter of 2018 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 2018 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 \$544 - \$917. The put options for these

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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.

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 June 30, 2018 and December 31, 2017 redeemable non-controlling interests were reported at their carrying value totaling \$12,322 and \$10,338, respectively, as the carrying value at each reporting period was greater than the estimated redemption value.

## 12. 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 Non-Solar Distributed Generation ("DG"). The Company's U.S. Regions, U.S. Federal and Canada segments offer energy efficiency products and services, which include the design, engineering and installation of equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure, renewable energy solutions and services, which include the construction of small-scale plants that the company owns or develops for customers that produce electricity, gas, heat or cooling from renewable sources of energy and O&M services. The Company's Non-Solar DG segment sells electricity, processed renewable gas fuel, heat or cooling, produced from renewable sources of energy, other than solar, and generated by small-scale plants that the Company owns and O&M services for customer owned small-scale plants. As of the fourth quarter of 2017, the Company's U.S. Regions segment now includes certain small-scale solar grid-tie plants developed for customers previously included in our Non-Solar DG segment. Previously reported amounts have been restated for comparative purposes. The "All Other" category offers enterprise energy management services, consulting services and the sale 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 2017, the Company included in unallocated corporate activity \$1,001 as a reserve for a customer who declared bankruptcy. For the three and six months ended June 30, 2018, the Company has not recorded any additional reserve.

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



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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.<br>Regions | U.S.<br>Federal | Canada   | Non-Solar<br>DG | All<br>Other | Total<br>Consolidated |
|--|-----------------|-----------------|----------|-----------------|--------------|-----------------------|
| Three Months Ended June 30, 2018                                     |                 |                 |          |                 |              |                       |
| Revenues   | \$88,778        | \$58,214        | \$7,958  | \$ 19,921       | \$22,111     | \$ 196,982            |
| Interest income  | 2               | 28              | —        | 47              | —            | 77                    |
| Interest expense   | 1,031           | 247             | 477      | 1,467           | 13           | 3,235                 |
| Depreciation and amortization of intangible assets                   | 1,377           | 661             | 290      | 4,348           | 377          | 7,053                 |
| Unallocated corporate activity                                       | —               | —               | —        | —               | —            | (7,751 )              |
| Income (loss) before taxes, excluding unallocated corporate activity | 4,732           | 10,078          | (285 )   | 2,335           | 900          | 17,760                |
| Three Months Ended June 30, 2017                                     |                 |                 |          |                 |              |                       |
| Revenues   | \$64,834        | \$59,106        | 8,991    | \$8,991         | \$ 15,210    | \$18,524              |
| Interest income  | —               | 9               | —        | 18              | —            | 27                    |
| Interest expense   | 565             | 266             | 487      | 940             | 13           | 2,271                 |
| Depreciation and amortization of intangible assets                   | 554             | 654             | 286      | 3,733           | 432          | 5,659                 |
| Unallocated corporate activity                                       | —               | —               | —        | —               | —            | (7,206 )              |
| Income before taxes, excluding unallocated corporate activity        | 3,456           | 8,881           | 614      | 859             | 416          | 14,226                |
| Six Months Ended June 30, 2018                                       |                 |                 |          |                 |              |                       |
| Revenues   | \$163,469       | \$105,999       | \$16,862 | \$ 38,038       | \$40,024     | \$ 364,392            |
| Interest income  | 3               | 48              | —        | 82              | —            | 133                   |
| Interest expense   | 2,222           | 488             | 961      | 2,548           | 13           | 6,232                 |
| Depreciation and amortization of intangible assets                   | 2,707           | 1,333           | 579      | 8,412           | 756          | 13,787                |
| Unallocated corporate activity                                       | —               | —               | —        | —               | —            | (14,620 )             |
| Income (loss) before taxes, excluding unallocated corporate activity | 9,350           | 15,895          | (2,647 ) | 4,945           | 1,812        | 29,355                |
| Six Months Ended June 30, 2017                                       |                 |                 |          |                 |              |                       |
| Revenues   | \$109,323       | \$107,030       | \$18,492 | \$ 30,856       | \$35,574     | \$ 301,275            |
| Interest income  | 1               | 15              | 1        | 29              | —            | 46                    |
| Interest expense   | 930             | 533             | 934      | 1,697           | 25           | 4,119                 |
| Depreciation and amortization of intangible assets                   | 1,073           | 1,307           | 575      | 7,541           | 910          | 11,406                |
| Unallocated corporate activity                                       | —               | —               | —        | —               | —            | (14,092 )             |
| Income before taxes, excluding unallocated corporate activity        | 956             | 14,326          | 101      | 2,027           | 1,313        | 18,723                |

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## 13. LONG-TERM DEBT

Long-term debt comprised the following:

|   | Rate<br>as of<br>June<br>30,<br>2018 | June 30,<br>2018 | December<br>31, 2017 |
|---|--------------------------------------|------------------|----------------------|
| Senior secured credit facility, due June 2020, interest at varying rates monthly in arrears | 4.53%                                | \$53,029         | \$49,986             |
| Variable rate term loan payable in semi-annual installments through February 2021           | 4.58%                                | 1,220            | 1,220                |
| Variable rate term loan payable in semi-annual installments through June 2024               | 4.08%                                | 8,295            | 8,295                |
| Variable rate term loan payable in quarterly installments through December 2024             | 5.58%                                | 8,041            | 8,757                |
| Term loan payable in quarterly installments through March 2021                              | 7.25%                                | 1,917            | 2,218                |
| Term loan payable in monthly installments through June 2028                                 | 6.11%                                | 4,157            | 4,551                |
| Variable rate term loan payable in quarterly installments through June 2020                 | 5.58%                                | 31,835           | 32,711               |
| Variable rate term loan payable in quarterly installments through October 2023              | 4.83%                                | 17,945           | 18,346               |
| Term loan payable in quarterly installments through June 2031                               | 4.95%                                | 4,187            | 4,605                |
| Term loan payable in quarterly installments through February 2034                           | 5.61%                                | 2,920            | 3,128                |
| Variable rate construction loan payable, due June 2018                                      | 7.00%                                | —                | 1,721                |
| Term loan payable in quarterly installments through April 2027                              | 4.50%                                | 21,055           | 13,325               |
| Term loan payable in quarterly installments through March 2028                              | 5.00%                                | 4,156            | 4,258                |
| Variable rate term loan payable in quarterly installments through December 2027             | 4.78%                                | 13,475           | 14,034               |
| Variable rate term loan payable in quarterly installments through August 2022               | 9.83%                                | 27,536           | —                    |
| Term loan payable in quarterly installments through December 2038                           | 5.15%                                | 12,345           | —                    |
| Variable rate term loan payable in semi-annual installments through June 2033               | 4.38%                                | 9,970            | —                    |
| Capital leases  |                                      | 34,216           | 35,013               |
|   |                                      | \$256,299        | \$202,168            |
| Less - current maturities   |                                      | 27,451           | 22,375               |
| Less - deferred financing fees  |                                      | 7,574            | 6,556                |
| Long-term debt  |                                      | \$221,274        | \$173,237            |

## February 2018 Term Loan

In February 2018, the Company entered into a credit agreement for gross proceeds of \$28,500, with a bank for use in providing non-recourse financing for a new renewable natural gas energy asset at a rate of 7.5% above LIBOR. Principal and interest amounts are due in quarterly installments. The note matures on August 31, 2022 with all remaining unpaid amounts outstanding under the agreement due at that time. At June 30, 2018, \$27,536 was outstanding under the term loan. The interest rate at June 30, 2018 was 9.8340%.

## Senior Secured Credit Facility - Revolver and Term Loan

In June 2018, the Company entered into an additional amendment to the Third Amended and Restated bank credit facility. The amendment added SunTrust Robinson Humphrey, Inc as an additional lender, increased the aggregate amount of the revolving commitments from \$75,000 to \$85,000 through the existing June 30, 2020 end date, increased the term loan from



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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

\$25,000 to \$46,000 to reduce the outstanding revolving loan balances by the same amount and, for the period of June 30, 2018 through June 30, 2020, increased the Total Funded Debt to EBITDA covenant ratio from a maximum of 2.75 to 3.00. The total commitment under the amended credit facility (revolving credit, term loan and swing line) was \$136,000.

At June 30, 2018 funds of \$67,276 is available for borrowing under the revolving credit facility.

June 2018 Term Loan

In June 2018, the Company entered into a non-recourse term loan with a bank, with an original principal amount of \$12,407. The note evidencing the loan bears interest at a fixed rate of 5.15%. The principal and interest payments are due in quarterly installments and matures on December 31, 2038, with all remaining unpaid amounts outstanding under the agreement will be due at that time. At June 30, 2018, \$12,345 was outstanding under the term loan, including debt discounts.

June 2018 Variable Note

In June 2018, the Company entered into a loan agreement for use in providing non-recourse financing for a solar PV project in operation. The loan agreement provides for a \$10,000 term loan credit facility and bears interest at a variable rate, with interest payments due in semi-annual installments. The term loan matures on June 15, 2033, and all remaining unpaid amounts outstanding under the facility will be due at that time. At June 30, 2018, \$9,970, net of debt discounts, was outstanding under the term loan. The variable interest rate for this loan at June 30, 2018 was 4.38%.

The Company was in compliance with all financial and operational covenants as of June 30, 2018.

14. SUBSEQUENT EVENTS

During the third quarter of 2018, the Company closed the acquisition of three solar projects for total consideration of \$40,100. To date the Company has paid \$35,300 to the developers of the acquired projects. The Company financed a portion of these acquisitions through tax equity and project debt. The Company expects these projects to achieve commercial operations in late 2018 or early 2019.

In August 2018, the Company repaid all principal, interest and other amounts outstanding under the loan agreement and the other financing documents associated with the 5.58% variable rate term loan originally due December 2024.

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, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 3, 2018 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 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 “continue,” and similar expressions or variations. These forward-looking statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Risks, uncertainties and factors that

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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. In June 2018, 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 (loss), 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.

### 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. 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 business is affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results.” in Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017 (“Annual Report”).

### Backlog and Awarded Projects

Total construction backlog represents projects that are active within our ESPC sales cycle. Our sales cycle begins with the initial contact with the customer and ends, when successful, with a signed contract, also referred to as

fully-contracted backlog. Our sales cycle recently has been averaging 18 to 42 months. Awarded backlog is created when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated from upgrading the customer's energy infrastructure. At this point, we also determine the sub-contractor, what equipment will

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be used, and assist in arranging for third party financing, as applicable. Recently, awarded projects have been taking an average of 12 to 24 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 backlog 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 36 months and we typically expect to recognize revenue for such contracts over the same period. Fully-contracted backlog begins converting into revenues generated from backlog over time using cost based input methods 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 June 30, 2018, we had fully-contracted backlog of approximately \$679.1 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 \$1,298.5 million. As of June 30, 2017, we had fully-contracted backlog of approximately \$631.4 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 \$1,013.5 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 June 30, 2018 and 2017, our 12-month backlog was \$354.7 million and \$380.1 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 \$285.9 million and \$202.4 million as of June 30, 2018 and 2017, 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 uninstalled materials under the revenue recognition requirements of contracts with our customers, 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:

- 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. Except for accounting policies related to our adoption of ASC 606,

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Management has determined that no material changes concerning our critical accounting policies have occurred since December 31, 2017.

Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606) (commonly referred to as ASC 606). The Company adopted the requirements of the new standard, including additional accounting standard updates issued during 2016 which provide clarification and expanded guidance on ASU 2014-09 topics, on January 1, 2018 using the modified retrospective method. Refer to Note 3 Revenue from Contracts with Customers for further discussion of the adoption of the standard and the impact on the Company's consolidated financial statements.

Results of Operations

On January 1, 2018, the Company adopted new accounting guidance on revenue from contracts with customers, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under that guidance, while prior period amounts are not adjusted and continue to be reported in accordance with the previous guidance. See Note 3 Revenue Recognition and Contracts with Customers of Notes to Consolidated Financial Statements for further details.

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

|   | Three Months Ended June 30, |          |           |          |
|---|-----------------------------|----------|-----------|----------|
|   | 2018                        |          | 2017      |          |
|   | Dollar                      | % of     | Dollar    | % of     |
|   | Amount                      | Revenues | Amount    | Revenues |
| Revenues  | \$196,982                   | 100.0 %  | \$166,665 | 100.0 %  |
| Cost of revenues  | 154,206                     | 78.3 %   | 131,257   | 78.8 %   |
| Gross profit  | 42,776                      | 21.7 %   | 35,408    | 21.2 %   |
| Selling, general and administrative expenses                          | 28,801                      | 14.6 %   | 26,650    | 16.0 %   |
| Operating income  | 13,975                      | 7.1 %    | 8,758     | 5.3 %    |
| Other expenses, net   | 3,966                       | 2.0 %    | 1,738     | 1.0 %    |
| Income before provision from income taxes                             | 10,009                      | 5.1 %    | 7,020     | 4.2 %    |
| Income tax provision  | 1,307                       | 0.7 %    | 1,060     | 0.6 %    |
| Net income  | 8,702                       | 4.4 %    | 5,960     | 3.6 %    |
| Net (income) loss attributable to redeemable non-controlling interest | —                           | — %      | (129 )    | (0.1 )%  |
| Net income attributable to common shareholders                        | \$8,702                     | 4.4 %    | \$5,831   | 3.5 %    |

|   | Six Months Ended June 30, |          |           |          |
|---|---------------------------|----------|-----------|----------|
|   | 2018                      |          | 2017      |          |
|   | Dollar                    | % of     | Dollar    | % of     |
|   | Amount                    | Revenues | Amount    | Revenues |
| Revenues  | \$364,392                 | 100.0 %  | \$301,275 | 100.0 %  |
| Cost of revenues  | 286,143                   | 78.5 %   | 239,943   | 79.6 %   |
| Gross profit  | 78,249                    | 21.5 %   | 61,332    | 20.4 %   |
| Selling, general and administrative expenses                          | 56,005                    | 15.4 %   | 53,137    | 17.6 %   |
| Operating income  | 22,244                    | 6.1 %    | 8,195     | 2.7 %    |
| Other expenses, net   | 7,510                     | 2.1 %    | 3,564     | 1.2 %    |
| Income before provision (benefit) from income taxes                   | 14,734                    | 4.0 %    | 4,631     | 1.5 %    |
| Income tax provision (benefit)  | (1,472 )                  | (0.4 )%  | 415       | 0.1 %    |
| Net income  | 16,206                    | 4.4 %    | 4,216     | 1.4 %    |
| Net (income) loss attributable to redeemable non-controlling interest | (516 )                    | (0.1 )%  | 971       | 0.3 %    |
| Net income attributable to common shareholders                        | \$15,690                  | 4.3 %    | \$5,187   | 1.7 %    |

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

|          | Three Months   |           | Dollar   | Percentage |
|----------|----------------|-----------|----------|------------|
|          | Ended June 30, |           |          |            |
|          | 2018           | 2017      | Change   | Change     |
| Revenues | \$196,982      | \$166,665 | \$30,317 | 18.2 %     |

|          | Six Months Ended |           | Dollar   | Percentage |
|----------|------------------|-----------|----------|------------|
|          | June 30,         |           |          |            |
|          | 2018             | 2017      | Change   | Change     |
| Revenues | \$364,392        | \$301,275 | \$63,117 | 20.9 %     |

Revenues increased \$30.3 million, or 18.2%, for the three months ended June 30, 2018 compared to the same period of 2017 primarily due to a \$23.9 million increase in revenues from our U.S. Regions segment, a \$4.7 million increase in our Non-



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Solar DG segment, a \$3.6 million increase in our All Other segment, offset by \$1.0 million decrease in our Canada segment, and a decrease of \$0.9 million in our U.S. Federal segment.

Revenues increased \$63.1 million, or 20.9%, for the six months ended June 30, 2018 compared to the same period of 2017 primarily due to a \$54.1 million increase in revenues from our U.S. Regions segment, a \$7.2 million increase in our Non-Solar DG segment, a \$4.5 million increase in our All Other segment, offset by \$1.6 million decrease in our Canada segment, and a decrease of \$1.0 million in our U.S. Federal 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 |
|------------------|--------------------|-----------|----------|------------|
|                  | June 30,           |           |          |            |
|                  | 2018               | 2017      | Change   | Change     |
| Cost of revenues | \$154,206          | \$131,257 | \$22,949 | 17.5 %     |
| Gross margin     | 21.7 %             | 21.2 %    |          |            |

|                  | Six Months Ended June |           | Dollar   | Percentage |
|------------------|-----------------------|-----------|----------|------------|
|                  | 30,                   |           |          |            |
|                  | 2018                  | 2017      | Change   | Change     |
| Cost of revenues | \$286,143             | \$239,943 | \$46,200 | 19.3 %     |
| Gross margin     | 21.5 %                | 20.4 %    |          |            |

Cost of revenues increased \$22.9 million, or 17.5%, and gross margin increased to 21.7%, from 21.2%, for the three months ended June 30, 2018 compared to the same period of 2017, respectively. The increase in cost of revenues and gross margin is primarily due to the increase in revenues from our U.S. Regions segment.

Cost of revenues increased \$46.2 million, or 19.3%, and gross margin percentage increased to 21.5%, from 20.4%, for the six months ended June 30, 2018 compared to the same period of 2017, respectively. The increase in cost of revenues and gross margin is primarily due to an increase in project revenues from our U.S. Regions segment and an increase in higher margin energy and incentive revenue from renewable gas assets the Company owns in our Non-Solar DG segment.

**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 June 30, |          |         |            |
|  | 2018           | 2017     | Change  | Change     |
| Selling, general and administrative expenses | \$28,801       | \$26,650 | \$2,151 | 8.1 %      |

|  | Six Months     |          | Dollar  | Percentage |
|--|----------------|----------|---------|------------|
|  | Ended June 30, |          |         |            |
|  | 2018           | 2017     | Change  | Change     |
| Selling, general and administrative expenses | \$56,005       | \$53,137 | \$2,868 | 5.4 %      |

Selling, general and administrative expenses increased \$2.2 million, or 8.1%, for the three months ended June 30, 2018, compared to the same period of 2017, primarily due to an increase in salaries and benefits of \$1.9 million resulting from increased headcount. For the six months ended June 30, 2018, selling, general and administrative expenses increased \$2.9 million, or 5.4% primarily due to an increase in salaries and benefits of \$2.0 million resulting from increased headcount and an increase in project development costs incurred in our Canada segment.

Amortization expense of intangible assets related to customer relationships, non-compete agreements, technology and trade names is included in selling, general and administrative expenses in the consolidated statements of income (loss). For the

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three months ended June 30, 2018 and 2017, we recorded amortization expense related to these intangible assets of \$0.2 million and \$0.3 million, respectively. For the six months ended June 30, 2018 and 2017, we recorded amortization expense related to these intangible assets of \$0.5 million and \$0.7 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 increased \$2.2 million and \$3.9 million for the three and six months ended June 30, 2018, respectively, compared to the same periods of 2017, primarily due to increases in interest expense and unfavorable foreign exchange rate fluctuations realized.

**Income Before Taxes**

Income before taxes increased \$3.0 million, or 42.6%, from \$7.0 million for the three months ended June 30, 2017 to \$10.0 million for the three months ended June 30, 2018 due to the reasons described above. Income before taxes increased \$10.1 million, or 218.2%, from \$4.6 million for the six months ended June 30, 2017 to \$14.7 million for the six months ended June 30, 2018 due to the reasons described above.

**Provision (Benefit) from Income Taxes**

The provision for income taxes was \$1.3 million for the three months ended June 30, 2018, compared to \$1.1 million for the three months ended June 30, 2017. The estimated annual effective tax rate applied for the three months ended June 30, 2018 was 13.1% compared to 15.1% for the three months ended June 30, 2017. The decrease in the rate compared to the same period in the prior year was due primarily to the effects of the reduction in the U.S. federal statutory tax rate, 21% for 2018 compared to 35% for 2017. The effects of the higher U.S. federal statutory tax rate for 2017 was partially offset by the use of investment tax credits, to which the company was entitled from plants it placed in service in 2017.

The benefit from income taxes was \$1.5 million for the six months ended June 30, 2018, compared to a provision of \$0.4 million for the six months ended June 30, 2017. The estimated annual effective tax rate applied for the six months ended six months ended June 30, 2018 was (10.0)% compared to 9.0% for the six months ended June 30, 2017. The decrease in the rate compared to the same period in the prior year was due primarily to the effects of a tax deduction under Internal Revenue Code Section 179D and the timing of the recognition of discrete tax items within interim periods.

The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2018 were the effects of a \$4.6 million benefit of the 2017 Section 179D deduction, which was extended in February 2018 and treated as a discrete event in the year to date period, and the use of investment tax credits to which the Company is entitled from owned plants. 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 from owned plants. 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 \$2.7 million, or 46.0%, to \$8.7 million for the three months ended June 30, 2018 compared to \$6.0 million for the same period of 2017. Net income increased \$12.0 million, or 284.4%, to \$16.2 million for the six months ended June 30, 2018 compared to \$4.2 million for the same period of 2017.

Basic and diluted earnings per share for the three months ended June 30, 2018 were \$0.19, an increase of \$0.06 per share, compared to the same period of 2017. Basic earnings per share for the six months ended June 30, 2018 were \$0.35, an increase of \$0.24 per share, compared to the same period of 2017. Diluted earnings per share for the six months ended June 30, 2018 were \$0.34, an increase of \$0.23 per share, compared to the same period of 2017.

**Business Segment Analysis**

We report results under ASC 280, Segment Reporting. Our reportable segments for the three and six months ended June 30, 2018 are U.S. Regions, U.S. Federal, Canada and Non-Solar Distribution Generation "DG". 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 Non-Solar



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DG segment sells electricity, processed renewable gas fuel, heat or cooling, produced from renewable sources of energy, other than solar, and generated by small-scale plants that we own; and O&M services for customer-owned small-scale plants. As of December 31, 2017, the Company's U.S. Regions segment now includes certain small-scale solar grid-tie plants developed for customers previously included in our Non-Solar DG segment. Previously reported amounts have been restated for comparative purposes. 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 Ended June 30, |          | Dollar Change | Percentage Change |   |
|---------------------|-----------------------------|----------|---------------|-------------------|---|
|                     | 2018                        | 2017     |               |                   |   |
| Revenues            | \$88,778                    | \$64,834 | \$23,944      | 36.9              | % |
| Income before taxes | \$4,732                     | \$3,456  | \$1,276       | 36.9              | % |

|                     | Six Months Ended June 30, |           | Dollar Change | Percentage Change |   |
|---------------------|---------------------------|-----------|---------------|-------------------|---|
|                     | 2018                      | 2017      |               |                   |   |
| Revenues            | \$163,469                 | \$109,323 | \$54,146      | 49.5              | % |
| Income before taxes | \$9,350                   | \$956     | \$8,394       | 878.0             | % |

Revenues for our U.S. Regions segment increased \$23.9 million, or 36.9%, to \$88.8 million for the three months ended June 30, 2018 and increased \$54.1 million, or 49.5%, to \$163.5 million for the six months ended June 30, 2018 compared to the same period of 2017, primarily due to an increase in project revenues attributable to an increase in the average project size versus the prior year.

Income before taxes for our U.S. Regions segment increased \$1.3 million, or 36.9%, to \$4.7 million for the three months ended June 30, 2018, and \$8.4 million, or 878.0%, to \$9.4 million for the six months ended June 30, 2018, compared to the same periods of 2017 primarily due to the increase in revenues described above.

## U.S. Federal

|                     | Three Months Ended June 30, |          | Dollar Change | Percentage Change |   |
|---------------------|-----------------------------|----------|---------------|-------------------|---|
|                     | 2018                        | 2017     |               |                   |   |
| Revenues            | \$58,214                    | \$59,106 | \$(892)       | (1.5)             | % |
| Income before taxes | \$10,078                    | \$8,881  | \$1,197       | 13.5              | % |

|                     | Six Months Ended June 30, |           | Dollar Change | Percentage Change |   |
|---------------------|---------------------------|-----------|---------------|-------------------|---|
|                     | 2018                      | 2017      |               |                   |   |
| Revenues            | \$105,999                 | \$107,030 | \$(1,031)     | (1.0)             | % |
| Income before taxes | \$15,895                  | \$14,326  | \$1,569       | 11.0              | % |

Revenues for our U.S. Federal segment decreased \$0.9 million, or 1.5% to \$58.2 million for the three months ended June 30, 2018, and decreased \$1.0 million, or 1.0% to \$106.0 million for the six months ended June 30, 2018 compared to the same period of 2017, primarily due to timing of revenue recognized as a result of the phase of active projects.

Income before taxes for our U.S. Federal segment increased \$1.2 million, or 13.5%, to \$10.1 million for the three months ended June 30, 2018, and \$1.6 million, or 11.0%, to \$15.9 million for the six months ended June 30, 2018 compared to the same periods of 2017, primarily due to gross profit attributed to a favorable mix of higher margin projects during the second quarter of 2018.



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## Canada

|                            | Three Months<br>Ended June 30, |         | Dollar<br>Change | Percentage<br>Change |
|----------------------------|--------------------------------|---------|------------------|----------------------|
|                            | 2018                           | 2017    |                  |                      |
| Revenues                   | \$7,958                        | \$8,991 | \$(1,033)        | (11.5)%              |
| Income (loss) before taxes | \$(285)                        | \$614   | \$(899)          | (146.4)%             |

|                            | Six Months Ended<br>June 30, |          | Dollar<br>Change | Percentage<br>Change |
|----------------------------|------------------------------|----------|------------------|----------------------|
|                            | 2018                         | 2017     |                  |                      |
| Revenues                   | \$16,862                     | \$18,492 | \$(1,630)        | (8.8)%               |
| Income (loss) before taxes | \$(2,647)                    | \$101    | \$(2,748)        | (2,720.8)%           |

Revenues for our Canada segment decreased \$1.0 million, or 11.5%, to \$8.0 million for the three months ended June 30, 2018 and \$1.6 million, or 8.8% to \$16.9 million for the six months ended June 30, 2018 compared to the same periods of 2017, primarily due to a decrease in project revenues.

Loss before taxes for our Canada segment increased \$0.9 million to a loss of \$0.3 million for the three months ended June 30, 2018 compared to a income of \$0.6 million for the same period of 2017. For the six months ended June 30, 2018, loss before taxes increased \$2.7 million to a loss of \$2.6 million compared to income of \$0.1 million for the same period of 2017. The increase in loss for the three-month and six-month period is primarily due to the decrease in revenues described above, higher project development costs and unfavorable foreign currency exchange rate fluctuations.

## Non-Solar DG

|                     | Three Months<br>Ended June 30, |          | Dollar<br>Change | Percentage<br>Change |
|---------------------|--------------------------------|----------|------------------|----------------------|
|                     | 2018                           | 2017     |                  |                      |
| Revenues            | \$19,921                       | \$15,210 | \$4,711          | 31.0%                |
| Income before taxes | \$2,335                        | \$859    | \$1,476          | 171.8%               |

|                     | Six Months<br>Ended June 30, |          | Dollar<br>Change | Percentage<br>Change |
|---------------------|------------------------------|----------|------------------|----------------------|
|                     | 2018                         | 2017     |                  |                      |
| Revenues            | \$38,038                     | \$30,856 | \$7,182          | 23.3%                |
| Income before taxes | \$4,945                      | \$2,027  | \$2,918          | 144.0%               |

Revenues for our Non-Solar DG segment increased \$4.7 million, or 31.0%, to \$19.9 million for the three months ended June 30, 2018, and increased \$7.2 million, or 23.3%, to \$38.0 million for the six months ended June 30, 2018, compared to the same periods of 2017, primarily due to an increase in energy and incentive revenue from the Company's renewable natural gas plant in Michigan which was placed in service in the first half of 2018.

Income before taxes for our Non-Solar DG segment increased \$1.5 million, or 171.8%, to \$2.3 million for the three months ended June 30, 2018 and \$2.9 million or 144.0% to \$4.9 million for the six months ended June 30, 2018 compared to the same periods of 2017, primarily due the increase in revenues described above.

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## All Other &amp; Unallocated Corporate Activity

|                                | Three Months Ended |            | Dollar   | Percentage |
|--------------------------------|--------------------|------------|----------|------------|
|                                | June 30,           |            |          |            |
|                                | 2018               | 2017       | Change   | Change     |
| Revenues                       | \$22,111           | \$18,524   | \$3,587  | 19.4 %     |
| Income before taxes            | \$900              | \$416      | \$484    | 116.3 %    |
| Unallocated corporate activity | \$(7,751 )         | \$(7,206 ) | \$(545 ) | (7.6 )%    |

|                                | Six Months Ended |            | Dollar   | Percentage |
|--------------------------------|------------------|------------|----------|------------|
|                                | June 30,         |            |          |            |
|                                | 2018             | 2017       | Change   | Change     |
| Revenues                       | \$40,024         | \$35,574   | \$4,450  | 12.5 %     |
| Income before taxes            | \$1,812          | \$1,313    | \$499    | 38.0 %     |
| Unallocated corporate activity | \$(14,620)       | \$(14,092) | \$(528 ) | (3.7 )%    |

Revenues for our All Other segment increased \$3.6 million, or 19.4%, to \$22.1 million for the three months ended June 30, 2018, compared to the same period of 2017 primarily due to an increase in project revenues. Revenues increased \$4.5 million or 12.5% to \$40.0 million for the six months ended June 30, 2018 compared to the same period of 2017 primarily due to an increase in project revenues and integrated-PV revenues attributed to sales to customers for oilfield microgrid applications.

Income before taxes for our All Other segment increased \$0.5 million, or 116.3% to \$0.9 million for the three months ended June 30, 2018 and \$0.5 million, or 38.0% to \$1.8 million six months ended June 30, 2018 compared to the same periods of 2017.

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 the next twelve months 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 June 30, 2018 and 2017 was \$0.7 million and \$1.4 million, respectively. The amount of interest capitalized relating to

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construction financing during the period of construction for the six months ended June 30, 2018 and 2017 was \$1.7 million and \$2.5 million, respectively.

Cash flows from operating activities. Operating activities used \$57.1 million of net cash during the six months ended June 30, 2018. During that period, we had net income of \$16.2 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 \$26.3 million. Increase in accounts receivable, including retainage, other assets, project development cost, inventory, and decrease in accrued expenses, billings in excess of costs and estimated earnings, net, and income tax payable used \$64.3 million in cash. These were offset by decreases in costs and estimated earnings in excess of billings, prepaids, and increases in other liabilities, provided for \$33.9 million in cash. Increases in Federal ESPC receivables used an additional \$69.3 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 \$51.4 million of net cash during the six months ended June 30, 2017. During that period, we had net loss of \$4.2 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes, unrealized foreign exchange gain and other non-cash items totaling \$10.9 million. Decreases accounts receivable, including retainage, inventory, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net, and an increase in other liabilities provided \$26.1 million in cash. These were offset by increases in prepaid expenses and other current assets, project development costs and other assets and a decrease in accounts payable, accrued expenses and other current liabilities and income taxes payable, which used \$19.8 million. An increase in Federal ESPC receivables used an additional \$72.8 million.

Cash flows from investing activities. Cash flows from investing activities during the six months ended June 30, 2018 used \$62.3 million. We invested \$26.2 million on purchases of energy assets during the six months ended June 30, 2018. In addition, we invested \$2.1 million in purchases of other property and equipment and \$34.0 million related to acquisitions of renewable energy plants. We plan to invest an additional \$70 million on capital expenditures, principally for energy asset acquisitions and construction, for the remainder of 2018.

Cash flows from investing activities during the six months ended June 30, 2017 used \$52.3 million. Development of our renewable energy plants used \$51.4 million. In addition, we invested \$1.2 million in purchases of other property and equipment and \$2.4 million related to the acquisitions of renewable energy assets. This was offset by proceeds from the sales of assets of \$2.8 million.

Cash flows from financing activities. Cash flows from financing activities during the six months ended June 30, 2018 provided \$124.0 million. This was primarily due to proceeds received from Federal ESPC projects and energy assets of \$70.4 million, proceeds from project financings of \$58.6 million, net proceeds from redeemable non-controlling interests of \$1.5 million, net draws on our revolving credit facility of \$6.1 million, and proceeds from exercises of stock options and ESPP of \$2.3 million. This was partially offset by payments on long-term debt of \$10.8 million, repurchase of common stock of \$1.8 million, including fees, and payments of financing fees of \$2.3 million.

Cash flows from financing activities during the six months ended June 30, 2017 provided \$112.9 million. This was primarily due to proceeds received from Federal ESPC projects of \$74.0 million, \$21.5 million received under sale-leaseback financings, proceeds from project financings of \$41.6 million, proceeds from exercises of options of \$1.1 million, net draws on our revolving credit facility of \$13.2 million and net proceeds from redeemable non-controlling interests of \$1.4 million. These was partially offset by payments on long-term debt of \$36.0 million, payments of financing fees of \$1.6 million, and repurchase of stock of \$2.3 million, including fees.

We currently plan additional project financings of approximately \$50.0 million for the second half of 2018.

See Note 13 Long-term Debt of Notes to Consolidated Financial Statements for additional discussion of items impacting the Company's liquidity.

## 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

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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 June 30, 2018, 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. We implemented internal controls to ensure we adequately evaluated our contracts and account for revenue recognition under the new accounting standard. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.



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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 7, “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 June 30, 2018, 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, 2017.

## 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 June 30, 2018 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 |
|--------------------------------|----------------------------------|------------------------------|--|--|
| April 1, 2018 - April 30, 2018 | —                                | —                            | —  | \$ 3,514,522   |
| May 1, 2018 - May 31, 2018     | 100                              | 11.50                        | 100  | \$ 3,513,372   |
| June 1, 2018 - June 30, 2018   | —                                | —                            | —  | \$ 3,513,372   |
| Total                          | 100                              | \$ 11.50                     | 100  | \$ 3,513,372   |

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\*+ Ameresco, Inc. 2017 Employee Stock Purchase Plan, as amended  
Amendment No. 7 to Third Amended and Restated Credit and Security Agreement dated June 29, 2018  
among Ameresco, Inc., certain guarantors party thereto, certain lenders party thereto from time to time and  
Bank of America, N.A. as Administrative Agent.
- 10.2\* Amendment No. 8 to Third Amended and Restated Credit and Security Agreement dated June 29, 2018  
among Ameresco, Inc., certain guarantors party thereto, certain lenders party thereto from time to time and  
Bank of America, N.A. as Administrative Agent.
- 10.3\* 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.
- 31.1\* 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.
- 31.2\* Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002.
- 32.1\*\*
- 101\* The following condensed consolidated financial statements from Ameresco, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in 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: August 8, 2018 By: /s/ John R. Granara, III

John R. Granara, III  
Executive Vice President  
and Chief Financial  
Officer  
(duly authorized and  
principal financial  
officer)