

Ameresco, Inc.  
Form 10-K  
March 07, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

OR

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

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

Commission File Number: 001-34811

Ameresco, Inc.

(Exact name of registrant as specified in its charter)

Delaware 04-3512838

(State or Other Jurisdiction of  
Incorporation or Organization) (I.R.S. Employer  
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Class A Common Stock, New York Stock Exchange  
par value \$0.0001 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K.

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.

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.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on the New York Stock Exchange on June 30, 2017, the last business day of the registrant’s most recently completed second fiscal quarter, was \$155,530,275.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of the latest practicable date.

Class	Shares outstanding as of March 5, 2018
Class A Common Stock, \$0.0001 par value per share	27,320,918
Class B Common Stock, \$0.0001 par value per share	18,000,000

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for our 2018 annual meeting of stockholders are incorporated by reference into Part III.

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NOTE ABOUT FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (“the Exchange Act”). All statements, other than statements of historical fact, including 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 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,” “predict” or “continue,” and similar expressions or variations. These forward-looking statements include, among other things, statements about:

- 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.

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 the future results expressed or implied by such forward-looking statements. Risks, uncertainties and factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors,” set forth in Item 1A of this Annual Report on Form 10-K and elsewhere in this report. The forward-looking statements in this Annual Report on Form 10-K represent our views as of the date of this Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

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Item 1. Business

Company Overview

Founded in 2000, Ameresco, Inc. is a leading independent provider of comprehensive energy services, including energy efficiency, infrastructure upgrades, energy security and resilience, asset sustainability and renewable energy solutions for businesses and organizations throughout North America and Europe. Ameresco's sustainability services include capital and operational upgrades to a facility's energy infrastructure and the development, construction, ownership and operation of renewable energy plants. Ameresco has successfully completed energy saving, environmentally responsible projects with federal, state and local governments, healthcare and educational institutions, housing authorities, and commercial and industrial customers. With its corporate headquarters in Framingham, MA, Ameresco has more than 1,000 employees across more than 68 offices providing local expertise in the United States, Canada, and the United Kingdom.

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

Our principal service is the development, design, engineering and installation of projects that reduce the energy and operations and maintenance ("O&M") costs of our customers' facilities. These projects generally include a variety of measures that incorporate innovative technology and techniques, customized for the facility and designed to improve the efficiency of major building systems, such as heating, ventilation, cooling and lighting systems, while enhancing the comfort and usability of the buildings. Such measures may include a combination of the following: water reclamation, light-emitting diode ("LED") lighting, smart metering, intelligent micro-grids, battery storage, combine heat and power ("CHP") or the installation of renewable energy, such as solar photovoltaic ("PV"). We also offer the ability to incorporate analytical tools that provide improved building energy management capabilities and enable customers to identify opportunities for energy cost savings. We typically commit to customers that our energy efficiency projects will satisfy agreed upon performance standards upon installation or achieve specified increases in energy efficiency. In most cases, the forecasted lifetime energy and operating cost savings of the energy efficiency measures we install will defray all or almost all of the cost of such measures. In many cases, we assist customers in obtaining third-party financing, grants or rebates for the cost of constructing the facility improvements, resulting in little or no upfront capital expenditure by the customer. After a project is complete, we may operate, maintain and repair the customer's energy systems under a multi-year O&M contract, which provides us with recurring revenue and visibility into the customer's evolving needs.

We also serve certain customers by developing and building small-scale renewable energy plants located at or close to a customer's site. Depending upon the customer's preference, we will either retain ownership of the completed plant or build it for the customer. Most of our small-scale renewable energy plants to date consist of solar PV installations and plants constructed adjacent to landfills, that use landfill gas ("LFG") to generate energy. We have also designed and built, as well as own, operate and maintain, plants that utilize biogas from wastewater treatment processes. Our largest renewable energy project that we operate for a customer uses biomass as the primary source of energy. In the case of most of the plants that we own, the electricity, thermal energy or processed renewable gas fuel generated by the plant is sold under a long-term supply contract with the customer, which is typically a utility, municipality, industrial facility or other purchaser of large amounts of energy. For information on how we finance the projects that we own and operate, please see the disclosures under Note 2, "Summary of Significant Accounting Policies", Note 7, "Long-Term Debt" and Note 9, "Investment Funds" to our Consolidated Financial Statements appearing in Item 8 of this Annual Report on Form 10-K.

As of December 31, 2017, we had backlog of approximately \$572.5 million in expected future revenues under signed customer contracts for the installation or construction of projects, which we sometimes refer to as fully-contracted backlog; and we also had been awarded projects for which we had not yet signed customer contracts, which we sometimes refer to as awarded projects, with estimated total future revenues of an additional \$1,199.0 million. As of December 31, 2016, we had backlog of approximately \$534.1 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 \$957.6 million. As of December 31, 2015, we had backlog of approximately \$390.4 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 \$955.8 million. 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. Where we have been awarded a project, but have not yet signed a customer contract for that project, we would not begin recognizing revenue unless

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and until a customer contract has been signed and we treat the project as fully-contracted backlog. Recently, awarded projects typically have been taking 12 to 24 months from award to having a signed contract and thus convert to fully-contracted backlog. It may take longer, however, depending upon the size and complexity of the project. Generally, the larger and more complex the project, the longer it takes to take it from award to signed contract. Historically, approximately 90% of our awarded projects ultimately have resulted in a signed contract.

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 of this Annual Report on Form 10-K.

Revenues generated from backlog, which we refer to as project revenues, were \$506.6 million, \$454.2 million and \$434.4 million for the twelve months ended December 31, 2017, 2016 and 2015, respectively.

We also expect to realize recurring revenues both from long-term O&M contracts and from energy output sales for renewable energy operating assets that we own. In addition, we expect to generate revenues from the sale of photovoltaic solar energy products and systems (“integrated-PV”) and other services, such as consulting services and enterprise energy management services. Information about revenues from these other service and product offerings may be found in Note 18, “Business Segment Information” of our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which information is incorporated herein by reference.

### Ameresco’s Lines of Business

#### Projects

Our principal service is 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, we also design and construct 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. Our projects generally range in size and scope from a one-month project to design and retrofit a lighting system to a more complex 30-month project to design and install a central plant or cogeneration system or other small-scale plant. Projects we have constructed or are currently working on include designing, engineering and installing energy conservation measures across school buildings; large, complex energy conservation and energy security projects for the federal government; and municipal-scale street lighting projects incorporating smart-city controls.

#### O&M

After an energy efficiency or renewable energy project is completed, we often provide 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, we frequently maintain staff on-site to perform these services.

#### Energy Assets

Our service offering also includes the sale of electricity, processed renewable gas fuel, heat or cooling from the portfolio of assets that we own and operate.

We have constructed and are currently designing and constructing a wide range of renewable energy plants using LFG, wastewater treatment biogas, solar, biomass, other bio-derived fuels, wind and hydro sources of energy. Most of our renewable energy projects to date have involved the generation of electricity from solar PV and LFG or the sale of processed LFG. We purchase the LFG that otherwise would be combusted or vented, process it, and either sell it or use it in our energy plants. We have 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 we own and operate energy producing assets, we typically enter into a long-term power purchase agreement (“PPA”) for the sale of the energy.



As of December 31, 2017, we owned and operated 73 small-scale renewable energy plants and solar PV installations. Of the owned plants, 23 are renewable LFG plants, two are wastewater biogas plants, and 48 are solar PV installations. The 73

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small-scale renewable energy plants and solar PV installations that we own have the capacity to generate electricity or deliver renewable gas fuel producing an aggregate of more than 191 megawatt equivalents.

### Other

Our service and product offerings also include integrated-PV and consulting and enterprise energy management services.

### Customer Arrangements

For our energy efficiency projects, we typically enter into energy savings performance contracts (“ESPCs”), under which we agree to develop, design, engineer and construct a project and also commit that the project will satisfy agreed upon performance standards that vary from project to project. These performance commitments are typically based on the design, capacity, efficiency or operation of the specific equipment and systems we install. Depending on the project, the measurement and demonstration may be required only once, upon installation, based on an analysis of one or more sample installations, or may be required to be repeated at agreed upon intervals generally over periods of up to 20 years. We often assist these customers in identifying and obtaining financing, through rebate programs, grant programs, third-party lenders and other sources.

Under our contracts, we typically do not take responsibility for a wide variety of factors outside of our control and exclude or adjust for such factors in commitment calculations. These factors include variations in energy prices and utility rates, weather, facility occupancy schedules, the amount of energy-using equipment in a facility and the failure of the customer to operate or maintain the project properly. Typically, our performance commitments apply to the aggregate overall performance of a project rather than to individual energy efficiency measures. Therefore, to the extent an individual measure underperforms, it may be offset by other measures that overperform during the same period. In the event that an energy efficiency project does not perform according to the agreed upon specifications, our agreements typically allow us to satisfy our obligation by adjusting or modifying the installed equipment, installing additional measures to provide substitute energy savings or paying the customer for lost energy savings based on the assumed conditions specified in the agreement. Many of our equipment supply, local design and installation subcontracts contain provisions that enable us to seek recourse against our vendors or subcontractors if there is a deficiency in our energy reduction commitment. See “We may have liability to our customers under our ESPCs if our projects fail to deliver the energy use reductions to which we are committed under the contract” in Item 1A, Risk Factors.

The projects that we perform for governmental agencies are governed by particular qualification and contracting regimes. Certain states require qualification with an appropriate state agency as a precondition to performing work or appearing as a qualified energy service provider for state, county and local agencies within the state. Most of the work that we perform for the federal government is performed under indefinite delivery, indefinite quantity (“IDIQ”) agreements between government agencies and us or our subsidiaries. These IDIQ agreements allow us to contract with the relevant agencies to implement energy projects, but no work may be performed unless we and the agency agree on a task order or delivery order governing the provision of a specific project. The government agencies enter into contracts for specific projects on a competitive basis. We and our subsidiaries and affiliates are currently party to two IDIQ agreement with the U.S. Department of Energy. The earlier IDIQ was awarded in 2008 and expires in 2019, with an aggregate maximum potential ordering amount of \$5 billion. The latter IDIQ was awarded in April 2017 and has a base ordering period of 60 months (expiring in 2022) with one 18-month option period. There is no guarantee the option will be exercised. The maximum value of the latter IDIQ is \$55 billion and is allocated across all 4 contract holders and is inclusive of both the base and option period. We are also party to similar agreements with other federal agencies, including the U.S. Army Corps of Engineers and the U.S. General Services Administration. Payments by the federal government for energy efficiency measures are based on the services provided and products installed, but are limited to the savings derived from such measures, calculated in accordance with federal regulatory guidelines and the specific contract terms. The savings are typically determined by comparing energy use and O&M costs before and after the installation of the energy efficiency measures, adjusted for changes that affect energy use and O&M costs but are not caused by the energy efficiency measures.

Sales and Marketing

Our sales and marketing approach is to offer customers customized and comprehensive energy efficiency solutions tailored to meet their economic, operational and technical needs. The sales, design and construction process for energy efficiency and renewable energy projects recently has been averaging from 18 to 54 months. We identify project opportunities through referrals, requests for proposals (“RFPs”), conferences and events, website, online campaigns, telemarketing and repeat

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business from existing customers. Our direct sales force develops and follows up on customer leads. As of December 31, 2017, we had 116 employees in direct sales.

In preparation for a proposal, our team typically conducts a preliminary audit of the customer's needs and requirements, and identifies areas to enhance efficiencies and reduce costs. We collect and analyze the customer's utility bill and other data related to energy use. If the bills are complex or numerous, we often utilize Ameresco's enterprise energy management software tools to scan, compile and analyze the information. Our experienced engineers visit and assess the customer's current energy systems and infrastructure. Through our knowledge of the federal, state, local governmental and utility environment, we assess the availability of energy, utility or environmental-based payments for usage reductions or renewable power generation, which helps us optimize the economic benefits of a proposed project for a customer. Once awarded a project, we perform a more detailed audit of the customer's facilities, which serves as the basis for the final specifications of the project and final contract terms. For renewable energy plants that are not located on a customer's site or use sources of energy not within the customer's control, the sales process also involves the identification of sites with attractive sources of renewable energy and obtaining necessary rights and governmental permits to develop a plant on that site. For example, for LFG projects, we start with gaining control of a LFG resource located close to the prospective customer. For solar and wind projects, we look for sites where utilities are interested in purchasing renewable energy power at rates that are sufficient to make a project feasible. Where governmental agencies control the site and resource, such as a landfill owned by a municipality, the customer may be required to issue an RFP to use the site or resource. Once we believe we are likely to obtain the rights to the site and the resource, we seek customers for the energy output of the potential project, with whom we can enter into a long-term PPA.

### Customers

In 2017, we served customers throughout the United States, Canada and the United Kingdom ("U.K"). Historically, including for the years ended December 31, 2017, 2016 and 2015, approximately 77% of our revenues have been derived from federal, state, provincial or local government entities, including public housing authorities and public universities. Our federal customers include various divisions of the U.S. federal government. The U.S. federal government, which is considered a single customer for reporting purposes, constituted 32.0%, 27.3% and 20.2% of our consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. For the year ended December 31, 2017, our largest 20 customers accounted for approximately 54.9% of our total revenues. Other than the U.S. federal government, no one customer represented more than 10% of our revenues during this period.

See "Provisions in our government contracts may harm our business, financial condition and operating results" in Item 1A, Risk Factors for a discussion of special considerations applicable to government contracting.

### Competition

While we face significant competition from a large number of companies, we believe few offer the full range of services that we provide.

Our principal competitors for our core business include Constellation Energy (an Exelon company), Energy Systems Group, Honeywell, Johnson Controls, McKinstry, NORESO, Opterra and Siemens Building Technologies. We compete primarily on the basis of our comprehensive, independent offering of energy efficiency and renewable energy services and the breadth and depth of our expertise.

For renewable energy plants, we compete primarily with many large independent power producers and utilities, as well as a large number of developers of renewable energy projects. In the LFG market, our principal competitors include national project developers and owners of landfills who self-develop projects using LFG from their landfills, such as Waste Management. In the solar PV market, our principal competitors are Apex Clean Energy, Borrego Solar, Dominion, Duke Energy, G&S Solar, SCE&G (a Scana company), Tesla, Southern Company and SunPower. We compete for renewable energy projects primarily on the basis of our experience, reputation and ability to identify and complete high quality and cost-effective projects.

For O&M services, our principal competitors are Emcorp Group, Fluor, Honeywell, Johnson Controls and Veolia. In this area, we compete primarily on the basis of our expertise and quality of service.

See “We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenues, growth rates and market share” in Item 1A, Risk Factors for further discussion of competition.

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### Regulatory

Various regulations affect the conduct of our business. Federal and state legislation and regulations enable us to enter into ESPCs with government agencies in the United States. The applicable regulatory requirements for ESPCs differ in each state and between agencies of the federal government.

Our projects must conform to all applicable electric reliability, building and safety, and environmental regulations and codes, which vary from place to place and time to time. Various federal, state, provincial and local permits are required to construct an energy efficiency project or renewable energy plant.

Renewable energy projects are also subject to specific governmental safety and economic regulation. States and the federal government typically do not regulate the transportation or sale of LFG unless it is combined with and distributed with natural gas, but this is not uniform among states and may change from time to time. States regulate the retail sale and distribution of natural gas to end-users, although regulatory exemptions from regulation are available in some states for limited gas delivery activities, such as sales only to a single customer. The sale and distribution of electricity at the retail level is subject to state and provincial regulation, and the sale and transmission of electricity at the wholesale level is subject to federal regulation. While we do not own or operate retail-level electric distribution systems or wholesale-level transmission systems, the prices for the products we offer can be affected by the tariffs, rules and regulations applicable to such systems, as well as the prices that the owners of such systems are able to charge. The construction of power generation projects typically is regulated at the state and provincial levels, and the operation of these projects also may be subject to state and provincial regulation as “utilities.” At the federal level, the ownership and operation of, and sale of power from, generation facilities may be subject to regulation under the Public Utility Holding Company Act of 2005 (“PUHCA”), the Federal Power Act (“FPA”), and Public Utility Regulatory Policies Act of 1978 (“PURPA”). However, because all of the plants that we have constructed and operated to date are small power “qualifying facilities” under PURPA, they are subject to less regulation under the FPA, PUHCA and related state utility laws than traditional utilities.

If we pursue projects employing different technologies or with a single project electrical capacity greater than 20 megawatts, we could become subject to some of the regulatory schemes which do not apply to our current projects. In addition, the state, provincial and federal regulations that govern qualifying facilities and other power sellers frequently change, and the effect of these changes on our business cannot be predicted.

LFG power generation facilities require an air emissions permit, which may be difficult to obtain in certain jurisdictions. See “Compliance with environmental laws could adversely affect our operating results” in Item 1A, Risk Factors. Renewable energy projects may also be eligible for certain governmental or government-related incentives from time to time, including tax credits, cash payments in lieu of tax credits, and the ability to sell associated environmental attributes, including carbon credits. Government incentives and mandates typically vary by jurisdiction. Some of the demand reduction services we provide for utilities and institutional clients are subject to regulatory tariffs imposed under federal and state utility laws. In addition, the operation of, and electrical interconnection for, our renewable energy projects are subject to federal, state or provincial interconnection and federal reliability standards also set forth in utility tariffs. These tariffs specify rules, business practices and economic terms to which we are subject. The tariffs are drafted by the utilities and approved by the utilities’ state, provincial or federal regulatory commissions.

### Employees

As of December 31, 2017, we had a total of 1,049 employees in offices located in 35 states, the District of Columbia, four Canadian provinces and the U.K.

### Seasonality

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 and “Overview — Effects of Seasonality” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of seasonality in our business.

### Segments and Geographic Information

Financial information about our domestic and international operations and about our segments may be found in Note 14, “Geographic Information” and 18, “Business Segment Information” respectively, of our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which information is incorporated herein by reference.

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## Additional Information

Ameresco was incorporated in Delaware in 2000 and is headquartered in Framingham, Massachusetts. Periodic reports, proxy statements and other information are available to the public, free of charge, on our website, [www.ameresco.com](http://www.ameresco.com), as soon as reasonably practicable after they have been filed with the Securities and Exchange Commission (“SEC”), and through the SEC’s website, [www.sec.gov](http://www.sec.gov). We include our website address in this report only as an inactive textual reference and do not intend it to be an active link to our website. None of the material on our website is part of this Annual Report on Form 10-K.

## Executive Officers

The following is a list of our executive officers, their ages as of March 1, 2018 and their principal positions.

Name	Age	Position (s)
George P. Sakellaris	71	Chairman of the Board of Directors, President and Chief Executive Officer
David J. Anderson	57	Executive Vice President and Director
Michael T. Bakas	49	Executive Vice President, Distributed Energy Systems
Nicole A. Bulgarino	45	Executive Vice President and General Manager, Federal Solutions
David J. Corrsin	59	Executive Vice President, General Counsel and Secretary and Director
Joseph P. DeManche	61	Executive Vice President, Engineering and Operations
Louis P. Maltezos	51	Executive Vice President
John R. Granara, III	49	Executive Vice President, Chief Financial Officer and Treasurer

George P. Sakellaris: Mr. Sakellaris has served as chairman of our board of directors and our president and chief executive officer since founding Ameresco in 2000.

David J. Anderson: Mr. Anderson has served as our executive vice president as well as a director, since 2000 and oversees business development, government relations, strategic marketing and communications, as well as several U.S. business units and U.K. operations.

Michael T. Bakas: Mr. Bakas has served as our executive vice president, distributed energy systems, since November 2017. Mr. Bakas previously served as our senior vice president, renewable energy, from March 2010 to September 2017 and our vice president, renewable energy from 2000 to February 2010.

David J. Corrsin: Mr. Corrsin has served as our executive vice president, general counsel and secretary, as well as a director, since 2000.

Nicole A. Bulgarino: Ms. Bulgarino has served as our executive vice president and general manager of federal solutions since May 2017. Ms. Bulgarino previously served as our senior vice president and general manager of federal solutions from May 2015 to May 2017; vice president and general manager of federal solutions from February 2014 to May 2015; vice president, federal group operations from December 2012 to February 2014; director, implementation from May 2010 to December 2012; and senior engineer from June 2004 to May 2010.

Joseph P. DeManche: Mr. DeManche has served as our executive vice president, engineering and operations since 2002.

Louis P. Maltezos: Mr. Maltezos has served as executive vice president since April 2009 and oversees Central and Northwest Regions and Canada operations. Mr. Maltezos has also served as the chief executive officer of Ameresco Canada since September 2015 and served as the president of Ameresco Canada from September 2014 to September 2015.

John R. Granara, III: Mr. Granara has served as our executive vice president since February 2017 and as our chief financial officer and treasurer since May 2015. Mr. Granara previously served as our vice president and chief accounting officer from September 2013 to May 2015. Prior to joining Ameresco, Mr. Granara served as Vice President Finance, Chief Accounting Officer and Corporate Controller for GT Advanced Technologies, Inc., a diversified technology company, from May 2011 through August 2013. Mr. Granara also served as interim chief financial officer of A123 Systems, Inc, a lithium-ion battery developer and manufacturer, from January 2011 through May 2011, and as vice president, finance, and corporate controller of A123 Systems, Inc. from November 2007 through December 2011. On October 16, 2012, A123 Systems, Inc. filed for voluntary reorganization under Chapter



11 of the U.S. Bankruptcy Code.

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Item 1A. Risk Factors

Our business is subject to numerous risks. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable law. You should, however, consult any further disclosure we make in our reports filed with the SEC.

Risks Related to Our Business

If demand for our energy efficiency and renewable energy solutions does not develop as we expect, our revenues will suffer and our business will be harmed.

We believe, and our growth plans assume, that the market for energy efficiency and renewable energy solutions will continue to grow, that we will increase our penetration of this market and that our revenues from selling into this market will continue to increase over time. If our expectations as to the size of this market and our ability to sell our products and services in this market are not correct, our revenues will suffer and our business will be harmed.

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.

The sales, design and construction process for energy efficiency and renewable energy projects recently has been taking from 18 to 54 months on average, with sales to federal government and housing authority customers tending to require the longest sales processes. Our existing and potential customers generally follow extended budgeting and procurement processes, and sometimes must engage in regulatory approval processes related to our services. Our customers often use outside consultants and advisors, which contributes to a longer sales cycle. Most of our potential customers issue an RFP, as part of their consideration of alternatives for their proposed project. In preparation for responding to an RFP, we typically conduct a preliminary audit of the customer's needs and the opportunity to reduce its energy costs. For projects involving a renewable energy plant that is not located on a customer's site or that uses sources of energy not within the customer's control, the sales process also involves the identification of sites with attractive sources of renewable energy, such as a landfill or a favorable site for solar PV, and it may involve obtaining necessary rights and governmental permits to develop a project on that site. If we are awarded a project, we then perform a more detailed audit of the customer's facilities, which serves as the basis for the final specifications of the project. We then must negotiate and execute a contract with the customer. In addition, we or the customer typically need to obtain financing for the project.

This extended sales process requires the dedication of significant time by our sales and management personnel and our use of significant financial resources, with no certainty of success or recovery of our related expenses. A potential customer may go through the entire sales process and not accept our proposal. All of these factors can contribute to fluctuations in our quarterly financial performance and increase the likelihood that our operating results in a particular quarter will fall below investor expectations. These factors could also adversely affect our business, financial condition and operating results due to increased spending by us that is not offset by increased revenues.

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We may not recognize all revenues from our backlog or receive all payments anticipated under awarded projects and customer contracts.

As of December 31, 2017, we had backlog of approximately \$572.5 million in expected future revenues under signed customer contracts for the installation or construction of projects, which we sometimes refer to as fully-contracted backlog; and we also had been awarded projects for which we do not yet have signed customer contracts with estimated total future revenues of an additional \$1,199.0 million. As of December 31, 2016, we had fully-contracted backlog of approximately \$534.1 million; and we also had awarded projects for which we had not yet have signed customer contracts with estimated total future revenues of an additional \$957.6 million. As of December 31, 2015, we had fully-contracted backlog of approximately \$390.4 million; and we also had been awarded projects for which we had not yet signed customer contracts with estimated total future revenues of an additional \$955.8 million.

Our customers have the right under some circumstances to terminate contracts or defer the timing of our services and their payments to us. In addition, our government contracts are subject to the risks described below under “Provisions in government contracts may harm our business, financial condition and operating results.” The payment estimates for projects that have been awarded to us but for which we have not yet signed contracts have been prepared by management and are based upon a number of assumptions, including that the size and scope of the awarded projects will not change prior to the signing of customer contracts, that we or our customers will be able to obtain any necessary third-party financing for the awarded projects, and that we and our customers will reach agreement on and execute contracts for the awarded projects. We are not always able to enter into a contract for an awarded project on the terms proposed. As a result, we may not receive all of the revenues that we include in the awarded projects component of our backlog or that we estimate we will receive under awarded projects. If we do not receive all of the revenue we currently expect to receive, our future operating results will be adversely affected. In addition, a delay in the receipt of revenues, even if such revenues are eventually received, may cause our operating results for a particular quarter to fall below our expectations.

Revenue recognition accounting pronouncements may materially adversely affect our reported results of operations. We continuously review our compliance with all new and existing revenue recognition accounting pronouncements. In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance. We adopted this guidance and its subsequent amendments effective as of January 1, 2018 using the modified retrospective transition approach beginning with our Quarterly Report on Form 10-Q for the first quarter of 2018. Under this approach, the new standard would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Specifically we expect up to a 6 month delay in the timing of revenue recognition related to solar renewable energy credits (“SRECs”) or renewable energy attributes, as well as potential changes in timing of revenue recognition on contracts with uninstalled materials if a significant delay is anticipated between purchasing and installation. See Recent Accounting Pronouncements in Note 2, “Summary of Significant Accounting Policies” to the Consolidated Financial Statements for further information regarding ASU 2014-09.

Our business depends in part on federal, state, provincial and local government support for energy efficiency and renewable energy, and a decline in such support could harm our business.

We depend in part on legislation and government policies that support energy efficiency and renewable energy projects that enhance the economic feasibility of our energy efficiency services and small-scale renewable energy projects. This support includes legislation and regulations that authorize and regulate the manner in which certain governmental entities do business with us; encourage or subsidize governmental procurement of our services; encourage or in some cases require other customers to procure power from renewable or low-emission sources, to reduce their electricity use or otherwise to procure our services; and provide us with tax and other incentives that reduce our costs or increase our revenues. Without this support, on which projects frequently rely for economic

feasibility, our ability to complete projects for existing customers and obtain project commitments from new customers could be adversely affected.

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A substantial portion of our earnings are derived from the sale of solar renewable energy certificates (“SRECs”) and other environmental attributes, and our failure to be able to sell such attributes could materially adversely affect our business, financial condition and results of operation.

A substantial portion of our earnings (approximately 25% for fiscal 2017) are attributable to our sale of RECs and other environmental attributes generated by our energy assets. These attributes are used as compliance purposes for state-specific or U.S. federal policy.

We own and operate solar PV installations which derive a significant portion of their revenues from the sale of SRECs, which are produced as a result of generating electricity. The value of these SRECs is determined by the supply and demand of SRECs in the states in which the solar PV installations are installed. Supply is driven by the amount of installations and demand is driven by state-specific laws relating to renewable portfolio standards.

We also own and operate renewable natural gas plants that may deliver biofuels into to the nation’s natural gas pipeline grid. Such biofuel may qualify for certain environmental attribute mechanisms, such as renewable identification numbers (“RINs”) which are used for compliance purposes under the Renewable Fuel Standard (“RFS”) program. The RFS is a U.S. federal policy that requires transportation fuel to contain a minimum volume of renewable fuel. The U.S. Environmental Protection Agency (“EPA”) administers the RFS program and may periodically undertake regulatory action involving the RFS, including annual volume standards for renewable fuel.

We sometimes seek to sell forward a portion of our SRECs and other environmental attributes under contracts to fix the revenues from those attributes for financing purposes or hedge against future declines in prices of such environmental attributes. If our renewable energy facilities do not generate the amount of renewable energy attributes sold under such forward contracts or if for any reason the renewable energy we generate does not produce SRECs or other environmental attributes for a particular state, we may be required to make up the shortfall of SRECs or other environmental attributes under such forward contracts through purchases on the open market or make payments of liquidated damages.

RECs are created through state law requirements for utilities to purchase a portion of their energy from renewable energy sources and changes in state laws or regulation relating to RECs may adversely affect the availability of RECs or other environmental attributes and the future prices for RECs or other environmental attributes, which could have an adverse effect on our business, financial condition and results of operations.

A significant decline in the fiscal health of federal, state, provincial and local governments could reduce demand for our energy efficiency and renewable energy projects.

Historically, including for the years ended December 31, 2017, 2016 and 2015, more than 77% of our revenues have been derived from sales to federal, state, provincial or local governmental entities, including public housing authorities and public universities. We expect revenues from this market sector to continue to comprise a significant percentage of our revenues for the foreseeable future. A significant decline in the fiscal health of these existing and potential customers may make it difficult for them to enter into contracts for our services or to obtain financing necessary to fund such contracts, or may cause them to seek to renegotiate or terminate existing agreements with us. In addition, if there is a partial shutdown of any federal, state, provincial or local governing body this may adversely impact our financial performance.

Provisions in our government contracts may harm our business, financial condition and operating results.

A significant majority of our fully-contracted backlog and awarded projects is attributable to customers that are government entities. Our contracts with the federal government and its agencies, and with state, provincial and local governments, customarily contain provisions that give the government substantial rights and remedies, many of which are not typically found in commercial contracts, including provisions that allow the government to:

• terminate existing contracts, in whole or in part, for any reason or no reason;

- reduce or modify contracts or subcontracts;
- decline to award future contracts if actual or apparent organizational conflicts of interest are discovered, or to impose organizational conflict mitigation measures as a condition of eligibility for an award;
- suspend or debar the contractor from doing business with the government or a specific government agency; and

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pursue criminal or civil remedies under the False Claims Act, False Statements Act and similar remedy provisions unique to government contracting.

Under general principles of government contracting law, if the government terminates a contract for convenience, the terminated company may recover only its incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, the defaulting company is entitled to recover costs incurred and associated profits on accepted items only and may be liable for excess costs incurred by the government in procuring undelivered items from another source. In most of our contracts with the federal government, the government has agreed to make a payment to us in the event that it terminates the agreement early. The termination payment is designed to compensate us for the cost of construction plus financing costs and profit on the work completed.

In ESPCs for governmental entities, the methodologies for computing energy savings may be less favorable than for non-governmental customers and may be modified during the contract period. We may be liable for price reductions if the projected savings cannot be substantiated.

In addition to the right of the federal government to terminate its contracts with us, federal government contracts are conditioned upon the continuing approval by Congress of the necessary spending to honor such contracts. Congress often appropriates funds for a program on a September 30 fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major Governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. Similar practices are likely to also affect the availability of funding for our contracts with Canadian, as well as state, provincial and local government entities. If one or more of our government contracts were terminated or reduced, or if appropriations for the funding of one or more of our contracts is delayed or terminated, our business, financial condition and operating results could be adversely affected.

Our senior credit facility, project financing term loans and construction contain financial and operating restrictions that may limit our business activities and our access to credit.

Provisions in our senior credit facility, project financing term loans and construction loans impose customary restrictions on our and certain of our subsidiaries' business activities and uses of cash and other collateral. These agreements also contain other customary covenants, including covenants that require us to meet specified financial ratios and financial tests.

We have a \$75 million revolving senior secured credit facility that matures June 2020, subject to the quarter end ratio covenant described below. This facility may not be sufficient to meet our needs as our business grows, and we may be unable to extend or replace it on acceptable terms, or at all. Under the revolving credit facility we are required to maintain a maximum ratio of total funded debt to EBITDA (as defined in the agreement) of less than 2.75 to 1.0 as of the end of each fiscal quarter ending September 30, 2016 and thereafter. We are also required to maintain a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0. EBITDA for purposes of the facility excludes the results of certain renewable energy projects that we own and for which financing from others remains outstanding.

In addition, our project financing term loans and construction loans require us to comply with a variety of financial and operational covenants.

Although we do not consider it likely that we will fail to comply with any of these covenants for the next twelve months, we cannot assure that we will be able to do so. Our failure to comply with these covenants may result in the declaration of an event of default and cause us to be unable to borrow under our credit facility. In addition to preventing additional borrowings under this facility, an event of default, if not cured or waived, may result in the acceleration of the maturity of indebtedness outstanding under it or the applicable project financing term loan, which would require us to pay all amounts outstanding. If an event of default occurs, we may not be able to cure it within any applicable cure period, if at all. Certain of our debt agreements also contain subjective acceleration clauses based on a lender deeming that a "material adverse change" in our business has occurred. If these clauses are implicated, and the lender declares that an event of default has occurred, the outstanding indebtedness would likely be immediately

due and owing. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us or at all.

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The projects we undertake for our customers generally require significant capital, which our customers or we may finance through third parties, and such financing may not be available to our customers or to us on favorable terms, if at all.

Our projects for customers are typically financed by third parties. For small-scale renewable energy plants that we own, we typically rely on a combination of our working capital and debt to finance construction costs. If we or our customers are unable to raise funds on acceptable terms when needed, we may be unable to secure customer contracts, the size of contracts we do obtain may be smaller or we could be required to delay the development and construction of projects, reduce the scope of those projects or otherwise restrict our operations. Any inability by us or our customers to raise the funds necessary to finance our projects could materially harm our business, financial condition and operating results.

Project development or construction activities may not be successful, and we may make significant investments without first obtaining project financing, which could increase our costs and impair our ability to recover our investments.

The development and construction of small-scale renewable energy plants and other energy infrastructure projects involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, legal and other expenses before we can determine whether a project is feasible, economically attractive or capable of being built. In addition, we will often choose to bear the costs of such efforts prior to obtaining project financing, prior to getting final regulatory approval and prior to our final sale to a customer, if any.

Successful completion of a particular project may be adversely affected by numerous factors, including: failures or delays in obtaining desired or necessary land rights, including ownership, leases and/or easements; failures or delays in obtaining necessary permits, licenses or other governmental support or approvals, or in overcoming objections from members of the public or adjoining land owners; uncertainties relating to land costs for projects; unforeseen engineering problems; access to available transmission for electricity generated by our small-scale renewable energy plants; construction delays and contractor performance shortfalls; work stoppages or labor disruptions and compliance with labor regulations; cost over-runs; availability of products and components from suppliers; adverse weather conditions; environmental, archaeological and geological conditions; and availability of construction and permanent financing.

If we are unable to complete the development of a small-scale renewable energy plants or fail to meet one or more agreed target construction milestone dates, we may be subject to liquidated damages and/or penalties under the Engineering Procurement and Construction agreement or other agreements relating to the power plant or project, and we typically will not be able to recover our investment in the project. We expect to invest a significant amount of capital to develop projects whether owned by us or by third parties. If we are unable to complete the development of a project, we may write-down or write-off some or all of these capitalized investments, which would have an adverse impact on our net income in the period in which the loss is recognized.

Our business is affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results.

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.

We may have exposure to additional tax liabilities and our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income.

Our provision for income taxes is subject to volatility and could be adversely affected by changes in tax laws or regulations, particularly changes in tax incentives in support of energy efficiency. For example, certain deductions relating to energy efficiency have expiration dates which could significantly alter the existing tax code, including the removal of these credits prior to their scheduled expiration. The 30% investment tax credit (“ITC”) relating to the installation of solar power was

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extended through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021, and 10 percent in 2022 and future years. If these or other deductions and credits expire without being extended, or otherwise are reduced or eliminated, our effective tax rate would increase, which could increase our income tax expense and reduce our net income.

Our tax rate has historically been significantly impacted by the IRC Section 179D deduction. This deduction is related to energy efficient improvements we provide under government contracts. Section 179D was extended through December 31, 2017 as part of the Bipartisan Budget Act which became law on February 9, 2018. There is no assurance that Section 179D will continue to be extended retroactively or otherwise and were the deduction not available it would significantly affect our tax rate.

In addition, like other companies, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities; our U.S. federal tax returns for 2014 through 2016 are subject to audit by federal, state and foreign tax authorities. Though we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our net income.

Changes in the laws and regulations governing the public procurement of ESPCs could have a material impact on our business.

We derive a significant amount of our revenue from ESPCs with our government customers. While federal, state and local government rules governing such contracts vary, such rules may, for example, permit the funding of such projects through long-term financing arrangements; permit long-term payback periods from the savings realized through such contracts; allow units of government to exclude debt related to such projects from the calculation of their statutory debt limitation; allow for award of contracts on a “best value” instead of “lowest cost” basis; and allow for the use of sole source providers. To the extent these rules become more restrictive in the future, our business could be harmed.

Failure of third parties to manufacture quality products or provide reliable services in a timely manner could cause delays in the delivery of our services and completion of our projects, which could damage our reputation, have a negative impact on our relationships with our customers and adversely affect our growth.

Our success depends on our ability to provide services and complete projects in a timely manner, which in part depends on the ability of third parties to provide us with timely and reliable products and services. In providing our services and completing our projects, we rely on products that meet our design specifications and components manufactured and supplied by third parties, as well as on services performed by subcontractors. We also rely on subcontractors to perform substantially all of the construction and installation work related to our projects; and we often need to engage subcontractors with whom we have no experience for our projects.

If any of our subcontractors are unable to provide services that meet or exceed our customers’ expectations or satisfy our contractual commitments, our reputation, business and operating results could be harmed. In addition, if we are unable to avail ourselves of warranty and other contractual protections with providers of products and services, we may incur liability to our customers or additional costs related to the affected products and components, which could have a material adverse effect on our business, financial condition and operating results. Moreover, any delays, malfunctions, inefficiencies or interruptions in these products or services could adversely affect the quality and performance of our solutions and require considerable expense to establish alternate sources for such products and services. This could cause us to experience difficulty retaining current customers and attracting new customers, and could harm our brand, reputation and growth.

We may have liability to our customers under our ESPCs if our projects fail to deliver the energy use reductions to which we are committed under the contract.

For our energy efficiency projects, we typically enter into ESPCs under which we commit that the projects will satisfy agreed-upon performance standards appropriate to the project. These commitments are typically structured as guarantees of increased energy efficiency that are based on the design, capacity, efficiency or operation of the specific equipment and systems we install. Our commitments generally fall into three categories: pre-agreed, equipment-level

and whole building-level. Under a pre-agreed efficiency commitment, our customer reviews the project design in advance and agrees that, upon or shortly after completion of installation of the specified equipment comprising the project, the pre-agreed increase in energy efficiency will have been met. Under an equipment-level commitment, we commit to a level of increased energy efficiency based on the difference in use measured first with the existing equipment and then with the replacement equipment upon completion of installation. A whole building-level commitment requires future measurement and verification of increased energy efficiency

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for a whole building, often based on readings of the utility meter where usage is measured. Depending on the project, the measurement and verification may be required only once, upon installation, based on an analysis of one or more sample installations, or may be required to be repeated at agreed upon intervals generally over periods of up to 20 years.

Under our contracts, we typically do not take responsibility for a wide variety of factors outside our control and exclude or adjust for such factors in commitment calculations. These factors include variations in energy prices and utility rates, weather, facility occupancy schedules, the amount of energy-using equipment in a facility, and failure of the customer to operate or maintain the project properly. We rely in part on warranties from our equipment suppliers and subcontractors to back-stop the warranties we provide to our customers and, where appropriate, pass on the warranties to our customers. However, the warranties we provide to our customers are sometimes broader in scope or longer in duration than the corresponding warranties we receive from our suppliers and subcontractors, and we bear the risk for any differences, as well as the risk of warranty default by our suppliers and subcontractors.

Typically, our performance commitments apply to the aggregate overall performance of a project rather than to individual energy efficiency measures. Therefore, to the extent an individual measure underperforms, it may be offset by other measures that overperform during the same period. In the event that an energy efficiency project does not perform according to the agreed-upon specifications, our agreements typically allow us to satisfy our obligation by adjusting or modifying the installed equipment, installing additional measures to provide substitute energy savings, or paying the customer for lost energy savings based on the assumed conditions specified in the agreement. However, we may incur additional or increased liabilities or expenses under our ESPCs in the future. Such liabilities or expenses could be substantial, and they could materially harm our business, financial condition or operating results. In addition, any disputes with a customer over the extent to which we bear responsibility to improve performance or make payments to the customer may diminish our prospects for future business from that customer or damage our reputation in the marketplace.

We may assume responsibility under customer contracts for factors outside our control, including, in connection with some customer projects, the risk that fuel prices will increase.

We typically do not take responsibility under our contracts for a wide variety of factors outside our control. We have, however, in a limited number of contracts assumed some level of risk and responsibility for certain factors — sometimes only to the extent that variations exceed specified thresholds — and may also do so under certain contracts in the future, particularly in our contracts for renewable energy projects. For example, under a contract for the construction and operation of a cogeneration facility at the U.S. Department of Energy Savannah River Site in South Carolina, a subsidiary of ours is exposed to the risk that the price of the biomass that will be used to fuel the cogeneration facility may rise during the 19-year performance period of the contract. Several provisions in that contract mitigate the price risk. In addition, although we typically structure our contracts so that our obligation to supply a customer with LFG, electricity or steam, for example, does not exceed the quantity produced by the production facility, in some circumstances we may commit to supply a customer with specified minimum quantities based on our projections of the facility's production capacity. In such circumstances, if we are unable to meet such commitments, we may be required to incur additional costs or face penalties. Despite the steps we have taken to mitigate risks under these and other contracts, such steps may not be sufficient to avoid the need to incur increased costs to satisfy our commitments, and such costs could be material. Increased costs that we are unable to pass through to our customers could have a material adverse effect on our operating results.

Our business depends on experienced and skilled personnel and substantial specialty subcontractor resources, and if we lose key personnel or if we are unable to attract and integrate additional skilled personnel, it will be more difficult for us to manage our business and complete projects.

The success of our business and construction projects depend in large part on the skill of our personnel and on trade labor resources, including with certain specialty subcontractor skills. Competition for personnel, particularly those with expertise in the energy services and renewable energy industries, is high. In the event we are unable to attract, hire and retain the requisite personnel and subcontractors, we may experience delays in completing projects in

accordance with project schedules and budgets. Further, any increase in demand for personnel and specialty subcontractors may result in higher costs, causing us to exceed the budget on a project. Either of these circumstances may have an adverse effect on our business, financial condition and operating results, harm our reputation among and relationships with our customers and cause us to curtail our pursuit of new projects.

Our future success is particularly dependent on the vision, skills, experience and effort of our senior management team, including our executive officers and our founder, principal stockholder, president and chief executive officer, George P.

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Sakellaris. If we were to lose the services of any of our executive officers or key employees, our ability to effectively manage our operations and implement our strategy could be harmed and our business may suffer.

If we cannot obtain surety bonds and letters of credit, our ability to operate may be restricted.

Federal and state laws require us to secure the performance of certain long-term obligations through surety bonds and letters of credit. In addition, we are occasionally required to provide bid bonds or performance bonds to secure our performance under energy efficiency contracts. In the future, we may have difficulty procuring or maintaining surety bonds or letters of credit, and obtaining them may become more expensive, require us to post cash collateral or otherwise involve unfavorable terms. Because we are sometimes required to have performance bonds or letters of credit in place before projects can commence or continue, our failure to obtain or maintain those bonds and letters of credit would adversely affect our ability to begin and complete projects, and thus could have a material adverse effect on our business, financial condition and operating results.

We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenues, growth rates and market share.

Our industry is highly competitive, with many companies of varying size and business models, many of which have their own proprietary technologies, competing for the same business as we do. Many of our competitors have longer operating histories and greater resources than us, and could focus their substantial financial resources to develop a competitive advantage. Our competitors may also offer energy solutions at prices below cost, devote significant sales forces to competing with us or attempt to recruit our key personnel by increasing compensation, any of which could improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain customers, cause us to lower our prices in order to compete, and reduce our market share and revenues, any of which could have a material adverse effect on our financial condition and operating results. We can provide no assurance that we will continue to effectively compete against our current competitors or additional companies that may enter our markets.

In addition, we may also face competition based on technological developments that reduce demand for electricity, increase power supplies through existing infrastructure or that otherwise compete with our products and services. We also encounter competition in the form of potential customers electing to develop solutions or perform services internally rather than engaging an outside provider such as us.

We may be unable to complete or operate our projects on a profitable basis or as we have committed to our customers. Development, installation and construction of our energy efficiency and renewable energy projects, and operation of our renewable energy projects, entails many risks, including:

- failure to receive critical components and equipment that meet our design specifications and can be delivered on schedule;
- failure to obtain all necessary rights to land access and use;
- failure to receive quality and timely performance of third-party services;
- increases in the cost of labor, equipment and commodities needed to construct or operate projects;
- permitting and other regulatory issues, license revocation and changes in legal requirements;
- shortages of equipment or skilled labor;
- unforeseen engineering problems;
- failure of a customer to accept or pay for renewable energy that we supply;
- weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism; and accidents involving personal injury or the loss of life;
- labor disputes and work stoppages;
- mishandling of hazardous substances and waste; and
- other events outside of our control.





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Any of these factors could give rise to construction delays and construction and other costs in excess of our expectations. This could prevent us from completing construction of our projects, cause defaults under our financing agreements or under contracts that require completion of project construction by a certain time, cause projects to be unprofitable for us, or otherwise impair our business, financial condition and operating results.

Our small-scale renewable energy plants may not generate expected levels of output.

The small-scale renewable energy plants that we construct and own are subject to various operating risks that may cause them to generate less than expected amounts of processed LFG, electricity or thermal energy. These risks include a failure or degradation of our, our customers' or utilities' equipment; an inability to find suitable replacement equipment or parts; less than expected supply of the plant's source of renewable energy, such as LFG or biomass; or a faster than expected diminishment of such supply. Any extended interruption in the plant's operation, or failure of the plant for any reason to generate the expected amount of output, could have a material adverse effect on our business and operating results. In addition, we have in the past, and could in the future, incur material asset impairment charges if any of our renewable energy plants incurs operational issues that indicate that our expected future cash flows from the plant are less than its carrying value. Any such impairment charge could have a material adverse effect on our operating results in the period in which the charge is recorded.

We have not entered into offtake agreements for certain of our small-scale renewable energy plants.

We have not entered into long-term offtake agreements for a minor portion of our small-scale renewable energy plants, particularly LFG plants, and we are required to sell the processed LFG or electricity produced by the facility at wholesale prices, which are exposed to market fluctuations and risks. The failure to sell such processed LFG or electricity at a favorable price could have a material adverse effect on our business and operating results.

We may not be able to replace expiring offtake agreements with contracts on similar terms. If we are unable to replace an expired offtake agreement with an acceptable new contract, we may be required to remove the small-scale renewable energy plant from the site or, alternatively, we may sell the assets to the customer.

We may not be able to replace an expiring offtake agreement with a contract on equivalent terms and conditions, including at prices that permit operation of the related facility on a profitable basis. If we are unable to replace an expiring offtake agreement with an acceptable new revenue contract, the affected site may temporarily or permanently cease operations or we may be required to sell the power produced by the facility at wholesale prices which are exposed to market fluctuations and risks. In the case of a solar photovoltaic installation that ceases operations, the offtake agreement terms generally require that we remove the assets, including fixing or reimbursing the site owner for any damages caused by the assets or the removal of such assets. Alternatively, we may agree to sell the assets to the site owner, but the terms and conditions, including price, that we would receive in any sale, and the sale price may not be sufficient to replace the revenue previously generated by the small-scale renewable energy plant.

We plan to expand our business in part through future acquisitions, but we may not be able to identify or complete suitable acquisitions.

Historically, acquisitions have been a significant part of our growth strategy. We plan to continue to use acquisitions of companies or assets to expand our project skill-sets and capabilities, expand our geographic markets, add experienced management and increase our product and service offerings. However, we may be unable to implement this growth strategy if we cannot identify suitable acquisition candidates, reach agreement with acquisition targets on acceptable terms or arrange required financing for acquisitions on acceptable terms. In addition, the time and effort involved in attempting to identify acquisition candidates and consummate acquisitions may divert members of our management from the operations of our company.

Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.

If we are successful in consummating acquisitions, those acquisitions could subject us to a number of risks, including:

- the purchase price we pay could significantly deplete our cash reserves or result in dilution to our existing stockholders;
- we may find that the acquired company or assets do not improve our customer offerings or market position as planned;

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- we may have difficulty integrating the operations and personnel of the acquired company;
- key personnel and customers of the acquired company may terminate their relationships with the acquired company as a result of the acquisition;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;
- we may incur additional costs and expenses related to complying with additional laws, rules or regulations in new jurisdictions;
- we may assume or be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not discover during our due diligence or adequately adjust for in our acquisition arrangements;
- our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;
- we may incur one-time write-offs or restructuring charges in connection with the acquisition;
- we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings; and
- we may not be able to realize the cost savings or other financial benefits we anticipated.

These factors could have a material adverse effect on our business, financial condition and operating results. We may be required to write-off or impair capitalized costs or intangible assets in the future or we may incur restructuring costs or other charges, each of which could harm our earnings.

In accordance with generally accepted accounting principles in the United States, we capitalize certain expenditures and advances relating to our acquisitions, pending acquisitions, project development costs, interest costs related to project financing and certain energy assets. In addition, we have considerable unamortized assets. From time to time in future periods, we may be required to incur a charge against earnings in an amount equal to any unamortized capitalized expenditures and advances, net of any portion thereof that we estimate will be recoverable, through sale or otherwise, relating to: (i) any operation or other asset that is being sold, permanently shut down, impaired or has not generated or is not expected to generate sufficient cash flow; (ii) any pending acquisition that is not consummated; (iii) any project that is not expected to be successfully completed; and (iv) any goodwill or other intangible assets that are determined to be impaired.

In response to such charges and costs and other market factors, we may be required to implement restructuring plans in an effort to reduce the size and cost of our operations and to better match our resources with our market opportunities. As a result of such actions, we would expect to incur restructuring expenses and accounting charges which may be material. Several factors could cause a restructuring to adversely affect our business, financial condition and results of operations. These include potential disruption of our operations, the development of our small-scale renewable energy projects and other aspects of our business. Employee morale and productivity could also suffer and result in unintended employee attrition. Any restructuring would require substantial management time and attention and may divert management from other important work. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense.

See also Note 2, "Summary of Significant Accounting Policies" and Note 4, "Goodwill and Intangible Assets", to our Consolidated Financial Statements appearing in Item 8 of this Annual Report on Form 10-K.

We need governmental approvals and permits, and we typically must meet specified qualifications, in order to undertake our energy efficiency projects and construct, own and operate our small-scale renewable energy projects, and any failure to do so would harm our business.

The design, construction and operation of our energy efficiency and small-scale renewable energy projects require various governmental approvals and permits, and may be subject to the imposition of related conditions that vary by jurisdiction. In some cases, these approvals and permits require periodic renewal. We cannot predict whether all permits required for a given project will be granted or whether the conditions associated with the permits will be achievable. The denial of a permit essential to a project or the imposition of impractical conditions would impair our

ability to develop the project. In addition, we cannot

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predict whether the permits will attract significant opposition or whether the permitting process will be lengthened due to complexities and appeals. Delay in the review and permitting process for a project can impair or delay our ability to develop that project or increase the cost so substantially that the project is no longer attractive to us. We have experienced delays in developing our projects due to delays in obtaining permits and may experience delays in the future. If we were to commence construction in anticipation of obtaining the final, non-appealable permits needed for that project, we would be subject to the risk of being unable to complete the project if all the permits were not obtained. If this were to occur, we would likely lose a significant portion of our investment in the project and could incur a loss as a result. Further, the continued operations of our projects require continuous compliance with permit conditions. This compliance may require capital improvements or result in reduced operations. Any failure to procure, maintain and comply with necessary permits would adversely affect ongoing development, construction and continuing operation of our projects.

In addition, the projects we perform for governmental agencies are governed by particular qualification and contracting regimes. Certain states require qualification with an appropriate state agency as a precondition to performing work or appearing as a qualified energy service provider for state, county and local agencies within the state. For example, the Commonwealth of Massachusetts and the states of Colorado and Washington pre-qualify energy service providers and provide contract documents that serve as the starting point for negotiations with potential governmental clients. Most of the work that we perform for the federal government is performed under IDIQ agreements between a government agency and us or a subsidiary. These IDIQ agreements allow us to contract with the relevant agencies to implement energy projects, but no work may be performed unless we and the agency agree on a task order or delivery order governing the provision of a specific project. The government agencies enter into contracts for specific projects on a competitive basis. We and our subsidiaries and affiliates are currently party to two IDIQ agreements with the U.S. Department of Energy expiring in 2019 and in 2022, respectively. We are also party to similar agreements with other federal agencies, including the U.S. Army Corps of Engineers and the U.S. General Services Administration. If we are unable to maintain or renew our IDIQ qualification under the U.S. Department of Energy program for ESPCs, or similar federal or state qualification regimes, our business could be materially harmed. We are also party to similar agreements with other federal agencies, including the U.S. Army Corps of Engineers and the U.S. General Services Administration.

If we are unable to maintain or renew our IDIQ qualification under the U.S. Department of Energy program for ESPCs, or similar federal or state qualification regimes, our business could be materially harmed.

Many of our small-scale renewable energy projects are, and other future projects may be, subject to or affected by U.S. federal energy regulation or other regulations that govern the operation, ownership and sale of the facility, or the sale of electricity from the facility.

PUHCA and the FPA regulate public utility holding companies and their subsidiaries and place constraints on the conduct of their business. The FPA regulates wholesale sales of electricity and the transmission of electricity in interstate commerce by public utilities. Under PURPA, all of our current small-scale renewable energy projects are small power “qualifying facilities” (facilities meeting statutory size, fuel and filing requirements) that are exempt from regulations under PUHCA, most provisions of the FPA and state rate and financial regulation. None of our renewable energy projects are currently subject to rate regulation for wholesale power sales by the Federal Energy Regulatory Commission (“FERC”) under the FPA, but certain of our projects that are under construction or development could become subject to such regulation in the future. Also, we may acquire interests in or develop generating projects that are not qualifying facilities. Non-qualifying facility projects would be fully subject to FERC corporate and rate regulation, and would be required to obtain FERC acceptance of their rate schedules for wholesale sales of energy, capacity and ancillary services, which requires substantial disclosures to and discretionary approvals from FERC. FERC may revoke or revise an entity’s authorization to make wholesale sales at negotiated, or market-based, rates if FERC determines that we can exercise market power in transmission or generation, create barriers to entry or engage in abusive affiliate transactions or market manipulation. In addition, many public utilities (including any non-qualifying facility generator in which we may invest) are subject to FERC reporting requirements that impose

administrative burdens and that, if violated, can expose the company to civil penalties or other risks. All of our wholesale electric power sales are subject to certain market behavior rules. These rules change from time to time, by virtue of FERC rulemaking proceedings and FERC-ordered amendments to utilities' or power pools' FERC tariffs. If we are deemed to have violated these rules, we will be subject to potential disgorgement of profits associated with the violation and/or suspension or revocation of our market-based rate authority, as well as potential criminal and civil penalties. If we were to lose market-based rate authority for any non-qualifying facility project we may acquire or develop in the future, we would be required to obtain FERC's acceptance of a cost-based rate schedule and could become subject to, among other things, the

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burdensome accounting, record keeping and reporting requirements that are imposed on public utilities with cost-based rate schedules. This could have an adverse effect on the rates we charge for power from our projects and our cost of regulatory compliance.

Wholesale electric power sales are subject to increasing regulation. The terms and conditions for power sales, and the right to enter and remain in the wholesale electric sector, are subject to FERC oversight. Due to major regulatory restructuring initiatives at the federal and state levels, the U.S. electric industry has undergone substantial changes over the past decade. We cannot predict the future design of wholesale power markets or the ultimate effect ongoing regulatory changes will have on our business. Other proposals to further regulate the sector may be made and legislative or other attention to the electric power market restructuring process may delay or reverse the movement towards competitive markets.

If we become subject to additional regulation under PUHCA, FPA or other regulatory frameworks, if existing regulatory requirements become more onerous, or if other material changes to the regulation of the electric power markets take place, our business, financial condition and operating results could be adversely affected.

Compliance with environmental laws could adversely affect our operating results.

Costs of compliance with federal, state, provincial, local and other foreign existing and future environmental regulations could adversely affect our cash flow and profitability. We are required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in connection with energy efficiency and renewable energy projects, and we may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted and new laws and regulations could be adopted or become applicable to us or our projects, and future changes in environmental laws and regulations could occur. These factors may materially increase the amount we must invest to bring our projects into compliance and impose additional expense on our operations.

In addition, private lawsuits or enforcement actions by federal, state, provincial and/or foreign regulatory agencies may materially increase our costs. Certain environmental laws make us potentially liable on a joint and several basis for the remediation of contamination at or emanating from properties or facilities we currently or formerly owned or operated or properties to which we arranged for the disposal of hazardous substances. Such liability is not limited to the cleanup of contamination we actually caused. Although we seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liability relating to the remediation of contamination, including contamination we did not cause.

We may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals. A delay in obtaining any required environmental regulatory approvals or failure to obtain and comply with them could adversely affect our business and operating results.

International expansion is one of our growth strategies, and international operations will expose us to additional risks that we do not face in the United States, which could have an adverse effect on our operating results.

We generate a portion of our revenues from operations in Canada and the U.K., and although we are engaged in overseas projects for the U.S. Department of Defense, we currently derive a small amount of revenues from outside of North America. However, international expansion is one of our growth strategies, and we expect our revenues and operations outside of North America will expand in the future. These operations will be subject to a variety of risks that we do not face in the United States, and that we may face only to a limited degree in Canada, including:

• building and managing highly experienced foreign workforces and overseeing and ensuring the performance of foreign subcontractors;

• increased travel, infrastructure and legal and compliance costs associated with multiple international locations;

• additional withholding taxes or other taxes on our foreign income, and tariffs or other restrictions on foreign trade or investment;

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imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements, many of which differ from those in the United States;

• increased exposure to foreign currency exchange rate risk;

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longer payment cycles for sales in some foreign countries and potential difficulties in enforcing contracts and collecting accounts receivable;

difficulties in repatriating overseas earnings;

general economic conditions in the countries in which we operate; and

political unrest, war, incidents of terrorism, or responses to such events.

Our overall success in international markets will depend, in part, on our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not be successful in developing and implementing policies and strategies that will be effective in managing these risks in each country where we do business. Our failure to manage these risks successfully could harm our international operations, reduce our international sales and increase our costs, thus adversely affecting our business, financial condition and operating results.

Changes in utility regulation and tariffs could adversely affect our business.

Our business is affected by regulations and tariffs that govern the activities and rates of utilities. For example, utility companies are commonly allowed by regulatory authorities to charge fees to some business customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase the cost to our customers of taking advantage of our services and make them less desirable, thereby harming our business, financial condition and operating results. Our current generating projects are all operated as qualifying facilities. FERC regulations under the FPA confer upon these facilities key rights to interconnection with local utilities, and can entitle qualifying facilities to enter into power purchase agreements with local utilities, from which the qualifying facilities benefit. Changes to these federal laws and regulations could increase our regulatory burdens and costs, and could reduce our revenues. State regulatory agencies could award renewable energy certificates or credits that our electric generation facilities produce to our power purchasers, thereby reducing the power sales revenues we otherwise would earn. In addition, modifications to the pricing policies of utilities could require renewable energy systems to charge lower prices in order to compete with the price of electricity from the electric grid and may reduce the economic attractiveness of certain energy efficiency measures.

Some of the demand-reduction services we provide for utilities and institutional clients are subject to regulatory tariffs imposed under federal and state utility laws. In addition, the operation of, and electrical interconnection for, our renewable energy projects are subject to federal, state or provincial interconnection and federal reliability standards that are also set forth in utility tariffs. These tariffs specify rules, business practices and economic terms to which we are subject. The tariffs are drafted by the utilities and approved by the utilities' state and federal regulatory commissions. These tariffs change frequently and it is possible that future changes will increase our administrative burden or adversely affect the terms and conditions under which we render service to our customers.

Our activities and operations are subject to numerous health and safety laws and regulations, and if we violate such regulations, we could face penalties and fines.

We are subject to numerous health and safety laws and regulations in each of the jurisdictions in which we operate. These laws and regulations require us to obtain and maintain permits and approvals and implement health and safety programs and procedures to control risks associated with our projects. Compliance with those laws and regulations can require us to incur substantial costs. Moreover, if our compliance programs are not successful, we could be subject to penalties or to revocation of our permits, which may require us to curtail or cease operations of the affected projects. Violations of laws, regulations and permit requirements may also result in criminal sanctions or injunctions. Health and safety laws, regulations and permit requirements may change or become more stringent. Any such changes could require us to incur materially higher costs than we currently have. Our costs of complying with current and future health and safety laws, regulations and permit requirements, and any liabilities, fines or other sanctions resulting from violations of them, could adversely affect our business, financial condition and operating results.

We are subject to various privacy and consumer protection laws.

Our privacy policy is posted on our website, and any failure by us or our vendor or other business partners to comply with it or with federal, state or international privacy, data protection or security laws or regulations could result in regulatory or litigation-related actions against us, legal liability, fines, damages and other costs. We may also incur

substantial expenses and costs in connection with maintaining compliance with such laws. For example, commencing in May 2018, the General Data Protection Regulation (the “GDPR”) will fully apply to the processing of personal information collected from individuals

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located in the European Union. The GDPR will create new compliance obligations and will significantly increase fines for noncompliance. Although we take steps to protect the security of our customers' personal information, we may be required to expend significant resources to comply with data breach requirements if third parties improperly obtain and use the personal information of our customers or we otherwise experience a data loss with respect to customers' personal information. A major breach of our network security and systems could have negative consequences for our business and future prospects, including possible fines, penalties and damages, reduced customer demand for our vehicles, and harm to our reputation and brand.

If our subsidiaries default on their obligations under their debt instruments, we may need to make payments to lenders to prevent foreclosure on the collateral securing the debt.

We typically set up subsidiaries to own and finance our renewable energy projects. These subsidiaries incur various types of debt which can be used to finance one or more projects. This debt is typically structured as non-recourse debt, which means it is repayable solely from the revenues from the projects financed by the debt and is secured by such projects' physical assets, major contracts and cash accounts and a pledge of our equity interests in the subsidiaries involved in the projects. Although our subsidiary debt is typically non-recourse to Ameresco, if a subsidiary of ours defaults on such obligations, or if one project out of several financed by a particular subsidiary's indebtedness encounters difficulties or is terminated, then we may from time to time determine to provide financial support to the subsidiary in order to maintain rights to the project or otherwise avoid the adverse consequences of a default. In the event a subsidiary defaults on its indebtedness, its creditors may foreclose on the collateral securing the indebtedness, which may result in our losing our ownership interest in some or all of the subsidiary's assets. The loss of our ownership interest in a subsidiary or some or all of a subsidiary's assets could have a material adverse effect on our business, financial condition and operating results.

We are exposed to the credit risk of some of our customers.

Most of our revenues are derived under multi-year or long-term contracts with our customers, and our revenues are therefore dependent to a large extent on the creditworthiness of our customers. During periods of economic downturn, our exposure to credit risks from our customers increases, and our efforts to monitor and mitigate the associated risks may not be effective in reducing our credit risks. In the event of non-payment by one or more of our customers, our business, financial condition and operating results could be adversely affected.

Fluctuations in foreign currency exchange rates can impact our results.

A portion of our total revenues are generated by our Canadian and U.K. subsidiaries. Changes in exchange rates between the Canadian dollar and the U.S. dollar, as well as the British pound sterling and the U.S. dollar, may adversely affect our operating results.

A failure of our information technology ("IT") and data security infrastructure could adversely impact our business and operations.

We rely upon the capacity, reliability and security of our IT and data security infrastructure and our ability to expand and continually update this infrastructure in response to the changing needs of our business. As we implement new systems, they may not perform as expected. We also face the challenge of supporting our older systems and implementing necessary upgrades. If we experience a problem with the functioning of an important IT system or a security breach of our IT systems, including during system upgrades and/or new system implementations, the resulting disruptions could have an adverse effect on our business.

We and certain of our third-party vendors receive and store personal information in connection with our human resources operations and other aspects of our business. Despite our implementation of security measures, our IT systems, like those of other companies, are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber attack and other similar disruptions, and we have experienced such incidents in the past. Any system failure, accident or security breach could result in disruptions to our operations. A material network breach in the security of our IT systems could include the theft of our intellectual property, trade secrets, customer information, human resources information or other confidential matter. Although past incidents have not had a material impact on our business operations or financial performance, to the extent that any disruptions or security

breach results in a loss or damage to our data, or an inappropriate disclosure of confidential, proprietary or customer information, it could cause significant damage to our reputation, affect our relationships with our customers, lead to claims against the Company and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

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Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock is volatile.

The trading price of our Class A common stock is volatile and could be subject to wide fluctuations. In addition, if the stock market in general experiences a significant decline, the trading price of our Class A common stock could decline for reasons unrelated to our business, financial condition or operating results. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it would likely result in substantial costs and divert management's attention and resources. This could have a material adverse effect on our business, operating results and financial condition.

Holders of our Class A common stock are entitled to one vote per share, and holders of our Class B common stock are entitled to five votes per share. The lower voting power of our Class A common stock may negatively affect the attractiveness of our Class A common stock to investors and, as a result, its market value.

We have two classes of common stock: Class A common stock, which is listed on the NYSE and which is entitled to one vote per share, and Class B common stock, which is not listed on the any security exchange and is entitled to five votes per share. The difference in the voting power of our Class A and Class B common stock could diminish the market value of our Class A common stock because of the superior voting rights of our Class B common stock and the power those rights confer.

For the foreseeable future, Mr. Sakellaris or his affiliates will be able to control the selection of all members of our board of directors, as well as virtually every other matter that requires stockholder approval, which will severely limit the ability of other stockholders to influence corporate matters.

Except in certain limited circumstances required by applicable law, holders of Class A and Class B common stock vote together as a single class on all matters to be voted on by our stockholders. Mr. Sakellaris, our founder, principal stockholder, president and chief executive officer, owns all of our Class B common stock, which, together with his Class A common stock, represents approximately 80% of the combined voting power of our outstanding Class A and Class B common stock. Under our restated certificate of incorporation, holders of shares of Class B common stock may generally transfer those shares to family members, including spouses and descendants or the spouses of such descendants, as well as to affiliated entities, without having the shares automatically convert into shares of Class A common stock. Therefore, Mr. Sakellaris, his affiliates, and his family members and descendants will, for the foreseeable future, be able to control the outcome of the voting on virtually all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as an acquisition of our company, even if they come to own, in the aggregate, as little as 20% of the economic interest of the outstanding shares of our Class A and Class B common stock. Moreover, these persons may take actions in their own interests that you or our other stockholders do not view as beneficial.

Though we may repurchase shares of our Class A common stock pursuant to our recently announced share repurchase program, we are not obligated to do so and if we do, we may purchase only a limited number of shares of Class A common stock.

On May 5, 2016, we announced a stock repurchase program under which the Company is currently authorized to repurchase, in the aggregate, up to \$15.0 million of our outstanding Class A common stock. However, we are not obligated to acquire any shares of our Class A common stock, and holders of our Class A common stock should not rely on the share repurchase program to increase their liquidity. 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. We intend to purchase through open market transactions or in privately negotiated transactions, in accordance with applicable securities laws and regulatory limitations. We may reduce or eliminate our share repurchase program in the future. The reduction or elimination of our share repurchase program, particularly if we do not repurchase the full number of shares authorized under the program, could adversely affect the market price of our common stock.



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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Framingham, Massachusetts, where we occupy approximately 26,000 square feet under a lease expiring on June 30, 2025. We occupy nine regional offices in Tempe, Arizona; Islandia, New York; Oak Brook, Illinois; Columbia, Maryland; Charlotte, North Carolina; Knoxville, Tennessee; Tomball, Texas; Spokane, Washington and North York, Ontario, each less than 25,000 square feet, under lease or sublease agreements. In addition, we lease space, typically less space, for 67 field offices throughout North America and the U.K. We also own 73 small-scale renewable energy plants throughout North America, which are located on leased sites or sites provided by customers. We expect to add new facilities and expand existing facilities as we continue to add employees and expand our business into new geographic areas.

Item 3. 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 13, “Commitments and Contingencies”, to our Consolidated Financial Statements included in this report, which is incorporated into this item by reference.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock trades on the New York Stock Exchange under the symbol "AMRC". The following table sets forth, for the fiscal quarters indicated, the high and low sale prices per share of our Class A common stock.

	2017		2016	
	High	Low	High	Low
First Quarter	\$6.55	\$4.85	\$6.23	\$4.14
Second Quarter	7.70	6.20	5.01	3.91
Third Quarter	7.80	7.55	5.34	4.35
Fourth Quarter	8.90	7.65	6.30	4.60

The closing sale price of our Class A common stock was \$8.35 on March 5, 2018, and according to the records of our transfer agent, there were 14 shareholders of record of our Class A common stock on that date. A substantially greater number of holders of our Class A common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

Our Class B common stock is not publicly traded and is held of record by George P. Sakellaris, our founder, principal stockholder, president and chief executive officer, as well as the Ameresco 2015 Annuity Trust and the Ameresco 2017 Annuity Trust, each of which Mr. Sakellaris is trustee and the sole beneficiary.

## Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain earnings, if any, to finance the growth and development of our business and do not expect to pay any cash dividends for the foreseeable future. Our revolving senior secured credit facility contains provisions that limit our ability to declare and pay cash dividends during the term of that agreement. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, provisions of applicable law and other factors our board of directors deems relevant.





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## Stock Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total return attained by shareholders on our Class A common stock relative to the cumulative total returns of the Russell 2000 index and the NASDAQ Clean Edge Green Energy index. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our Class A common stock on December 31, 2012, and in each of the indexes on December 31, 2012 and its relative performance is tracked through December 31, 2017.

## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN\*

Among Ameresco, Inc., the Russell 2000 Index  
and the NASDAQ Clean Edge Green Energy Index

\*\$100 invested on December 31, 2012 in our Class A common stock or December 31, 2012 in respective index, including reinvestment of dividends. Fiscal year ending December 31, 2017.

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Ameresco, Inc.	\$100.00	\$98.47	\$71.36	\$63.71	\$56.07	\$87.67
Russell 2000 Index	\$100.00	\$138.82	\$145.62	\$139.19	\$168.85	\$193.58
NASDAQ Clean Edge Green Energy Index	\$100.00	\$196.27	\$208.69	\$232.98	\$222.42	\$295.91

Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

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Stock Repurchase Program

The following table provides information as of and for the quarter ended December 31, 2017 regarding shares of our Class A common stock that were repurchased under our stock repurchase program authorized by the Board of Directors on April 27, 2016 (the “Repurchase Program”):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2017 - October 31, 2017	—	\$ —	—	\$ 5,658,528
November 1, 2017 - November 30, 2017	—	—	—	5,658,528
December 1, 2017 - December 31, 2017	45,053	8.47	45,053	5,276,719
Total	45,053	\$ 8.47	45,053	\$ 5,276,719

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. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

We derived the consolidated statements of income (loss) data for the years ended December 31, 2017, 2016, and 2015 and the consolidated balance sheet data at December 31, 2017 and 2016 from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. We derived the consolidated statements of income (loss) data for the years ended December 31, 2014 and 2013, and the consolidated balance sheet data at December 31, 2015, 2014, and 2013, from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

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	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated Statements of Income (Loss) Data:					
Revenues	\$717,152	\$651,227	\$630,832	\$593,241	\$574,171
Cost of revenues	572,994	516,883	513,768	476,309	470,846
Gross profit	144,158	134,344	117,064	116,932	103,325
Selling, general and administrative expenses	107,570	110,568	110,007	103,781	96,693
Operating income	36,588	23,776	7,057	13,151	6,632
Other expenses, net	7,871	7,409	6,765	6,859	3,873
Income before provision for income taxes	28,717	16,367	292	6,292	2,759
Income tax provision (benefit)	(4,791)	) 4,370	4,976	(4,091)	) 345
Net income (loss)	33,508	11,997	(4,684)	) 10,383	2,414
Net loss attributable to redeemable non-controlling interest	3,983	35	5,528	—	—
Net income attributable to common shareholders	\$37,491	\$12,032	\$844	\$10,383	\$2,414
Net income per share attributable to common shareholders:					
Basic	\$0.82	\$0.26	\$0.02	\$0.22	\$0.05
Diluted	\$0.82	\$0.26	\$0.02	\$0.22	\$0.05
Weighted average common shares outstanding:					
Basic	45,509,000	46,409,000	46,494,000	46,162,000	45,560,000
Diluted	45,748,000	46,493,000	47,665,000	47,028,000	46,685,000

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$24,262	\$20,607	\$21,645	\$23,762	\$17,171
Current assets	287,078	226,061	263,698	215,795	247,009
Federal ESPC receivable <sup>(1)</sup>	248,917	158,209	125,804	79,167	44,297
Energy assets, net	356,443	319,758	244,309	217,772	210,744
Total assets	983,951	797,281	723,440	617,550	600,983
Current liabilities	202,142	190,602	179,723	142,934	133,288
Long-term debt, less current portion	173,237	140,593	100,490	85,724	97,902
Federal ESPC liabilities <sup>(1)</sup>	235,088	133,003	122,040	70,875	44,297
Total stockholders' equity	\$336,620	\$294,306	\$287,409	\$286,306	\$276,806

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.

Federal ESPC liabilities represent the advances received from third-party investors under agreements to finance (1) certain energy savings performance contract projects with various federal government agencies. Upon completion and acceptance of the project by the government, typically within 24 - 36 months of construction commencement, the ESPC receivable from the Government and corresponding related ESPC liability is eliminated from our consolidated balance sheet. Until recourse to us ceases for the ESPC receivables transferred to the investor, upon final acceptance of the work by the Government customer, we remain the primary obligor for financing received.



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Item 7. 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 consolidated financial statements and the related notes and other financial information included in Item 8 of this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" included in Item 1A of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

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

In September 2015, we entered into an agreement with a third party investor which granted the investor ownership interests in the net assets of certain of our renewable energy project subsidiaries. In June 2017, we entered into a separate agreement with a third party investor which granted the investor ownership interests in the net assets of certain of our renewable energy project subsidiaries. We entered into these agreements in order to finance the costs of constructing certain energy assets which are under long-term customer contracts. We have determined that we are the primary beneficiary in the operational partnerships for accounting purposes. Accordingly, we consolidate the assets and liabilities and operating results of the entities in our consolidated financial statements. We recognize the investors' share of the net assets of the investors' funds as redeemable non-controlling interests in our consolidated balance sheets. These income or loss allocations, which are reflected on our consolidated statements of income (loss), may create significant volatility in our reported results of operations, including potentially changing net income available (loss attributable) to common stockholders from income to loss, or vice versa, from quarter to quarter.

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

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

Energy Savings Performance and Energy Supply Contracts

For our energy efficiency projects, we typically enter into ESPCs, under which we agree to develop, design, engineer and construct a project and also commit that the project will satisfy agreed-upon performance standards that vary from project to project. These performance commitments are typically based on the design, capacity, efficiency or operation of the specific equipment and systems we install. Our commitments generally fall into three categories: pre-agreed, equipment-level and whole building-level. Under a pre-agreed energy reduction commitment, our customer reviews the project design in advance and agrees that, upon or shortly after completion of installation of the specified equipment comprising the project, the commitment will have been met. Under an equipment-level commitment, we commit to a level of energy use reduction based on the difference in use measured first with the existing equipment and then with the replacement equipment. A whole building-level commitment requires demonstration of energy usage reduction for a whole building, often based on readings of the utility meter where usage is measured. Depending on the project, the measurement and demonstration may be required only once, upon installation, based on an analysis of one or more sample installations, or may be required to be repeated at agreed upon intervals generally over up to 20 years.

Under our contracts, we typically do not take responsibility for a wide variety of factors outside of our control and exclude or adjust for such factors in commitment calculations. These factors include variations in energy prices and utility rates, weather, facility occupancy schedules, the amount of energy-using equipment in a facility and the failure of the customer to operate or maintain the project properly. Typically, our performance commitments apply to the aggregate overall performance of a project rather than to individual energy efficiency measures. Therefore, to the extent an individual measure underperforms,

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it may be offset by other measures that overperform during the same period. In the event that an energy efficiency project does not perform according to the agreed-upon specifications, our agreements typically allow us to satisfy our obligation by adjusting or modifying the installed equipment, installing additional measures to provide substitute energy savings or paying the customer for lost energy savings based on the assumed conditions specified in the agreement. Many of our equipment supply, local design and installation subcontracts contain provisions that enable us to seek recourse against our vendors or subcontractors if there is a deficiency in our energy reduction commitment. See “We may have liability to our customers under our ESPCs if our projects fail to deliver the energy use reductions to which we are committed under the contract” in Item 1A, Risk Factors in this Annual Report on Form 10-K. Payments by the federal government for energy efficiency measures are based on the services provided and the products installed, but are limited to the savings derived from such measures, calculated in accordance with federal regulatory guidelines and the specific contract’s terms. The savings are typically determined by comparing energy use and other costs before and after the installation of the energy efficiency measures, adjusted for changes that affect energy use and other costs but are not caused by the energy efficiency measures.

For projects involving the construction of a small-scale renewable energy plant that we own and operate, we generally enter into long-term contracts to supply the electricity, processed LFG, heat or cooling generated by the plant to the customer, which is typically a utility, municipality, industrial facility or other large purchaser of energy. The rights to use the site for the plant and purchase of renewable fuel for the plant are also obtained by us under long-term agreements with terms at least as long as the associated output supply agreement. Our supply agreements typically provide for fixed prices or prices that escalate at a fixed rate or vary based on a market benchmark. See “We may assume responsibility under customer contracts for factors outside our control, including, in connection with some customer projects, the risk that fuel prices will increase” in reference Item 1A, Risk Factors in this Annual Report on Form 10-K.

### Project Financing

To finance projects with federal governmental agencies, we typically sell to third-party lenders our right to receive a portion of the long-term payments from the customer arising out of the project for a purchase price reflecting a discount to the aggregate amount due from the customer. The purchase price is generally advanced to us over the implementation period based on completed work or a schedule predetermined to coincide with the construction of the project. Under the terms of these financing arrangements, we are required to complete the construction or installation of the project in accordance with the contract with our customer, and the liability remains on our consolidated balance sheet until the completed project is accepted by the customer. Once the completed project is accepted by the customer, the financing is treated as a true sale and the related receivable and financing liability are removed from our consolidated balance sheet.

Institutional customers, such as state, provincial and local governments, schools and public housing authorities, typically finance their energy efficiency and renewable energy projects through either tax-exempt leases or issuances of municipal bonds. We assist in the structuring of such third-party financing.

In some instances, customers prefer that we retain ownership of the renewable energy plants and related energy assets that we construct for them. In these projects, we typically enter into a long-term supply agreement to furnish electricity, gas, heat or cooling to the customer’s facility. To finance the significant upfront capital costs required to develop and construct the plant, we rely either on our internal cash flow or, in some cases, third-party debt. For project financing by third-party lenders, we typically establish a separate subsidiary, usually a limited liability company, to own the energy assets and related contracts. The subsidiary contracts with us for construction and operation of the project and enters into a financing agreement directly with the lenders. Additionally, we will provide assurance to the lender that the project will achieve commercial operation. Although the financing is secured by the assets of the subsidiary and a pledge of our equity interests in the subsidiary, and is non-recourse to Ameresco, Inc., we may from time to time determine to provide financial support to the subsidiary in order to maintain rights to the project or otherwise avoid the adverse consequences of a default. The amount of such financing is included on our consolidated balance sheet.



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

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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 revenues or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

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

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

As of December 31, 2017, we had backlog of approximately \$572.5 million in expected future revenues under signed customer contracts for the installation or construction of projects; and we also had been awarded projects for which we had not yet signed customer contracts with estimated total future revenues of an additional \$1,199.0 million. As of December 31, 2016, we had fully-contracted backlog of approximately \$534.1 million in 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 \$957.6 million. As of December 31, 2015, we had backlog of approximately \$390.4 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 \$955.8 million.

We define our 12-month backlog as the estimated amount of revenues that we expect to recognize in the next twelve months from our fully-contracted backlog. As of December 31, 2017 and 2016, our 12-month backlog was \$348.0 million and \$309.6 million, respectively.

Assets in development, which represents the potential design/build project value of small-scale renewable energy plants that have been awarded or for which we have secured development rights, was \$165.8 million and \$228.3 million as of December 31, 2017 and 2016, respectively.

### Financial Operations Overview

#### Revenues

We derive revenues principally from energy efficiency projects, which entails the design, engineering and installation of equipment and other measures that incorporate a range of innovative technology and techniques to improve the efficiency and control the operation of a facility's energy infrastructure; this can include designing and constructing for a customer a central plant or cogeneration system providing power, heat and/or cooling to a building, or other small-scale plant that produces electricity, gas, heat or cooling from renewable sources of energy. We also derive revenue from: long-term O&M contracts;

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energy supply contracts for renewable energy operating assets that we own; integrated-PV; and consulting and enterprise energy management services.

Historically, including for the years ended December 31, 2017, 2016 and 2015, approximately 77% of our revenues have been derived from federal, state, provincial or local government entities, including public housing authorities and public universities.

### Cost of Revenues and Gross Margin

Cost of revenues include the cost of labor, materials, equipment, subcontracting and outside engineering that are required for the development and installation of our projects, as well as pre-construction 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 our contracts have fixed price terms; however, in some cases we negotiate protections, such as a cost-plus structure, to mitigate the risk of rising prices for materials, services and equipment.

Cost of revenues also include costs for the small-scale renewable energy plants that we own, including the cost of fuel (if any) and depreciation charges.

As a result of certain acquisitions, we have intangible assets related to customer contracts; these are amortized over a period of approximately one to five years from the respective date of acquisition. This amortization is recorded as a cost of revenues in the consolidated statements of income (loss). Amortization expense for the year ended December 31, 2016 related to customer contracts was \$0.2 million. Customer contract intangible assets were fully amortized as of December 31, 2017.

Gross margin, which is gross profit as a percent of revenues, is affected by a number of factors, including the type of services performed. Renewable energy projects that we own and operate typically have higher margins than energy efficiency projects, and sales in the United States typically have higher margins than in Canada due to the typical mix of products and services that we sell there.

In addition, gross margin frequently varies across the construction period of a project. Our expected gross margin on, and expected revenues for, a project are based on budgeted costs. From time to time, a portion of the contingencies reflected in budgeted costs are not incurred due to strong execution performance. In that case, and generally at project completion, we recognize revenues for which there is no further corresponding cost of revenues. As a result, gross margin tends to be back-loaded for projects with strong execution performance; this explains the gross margin improvement that occurs from time to time at project closeout. We refer to this gross margin improvement at the time of project completion as a project closeout.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries and benefits, project development costs, and general and administrative expenses not directly related to the development or installation of projects.

Salaries and benefits. Salaries and benefits consist primarily of expenses for personnel not directly engaged in specific project or revenue generating activity. These expenses include the time of executive management, legal, finance, accounting, human resources, information technology and other staff not utilized in a particular project. We employ a comprehensive time card system which creates a contemporaneous record of the actual time by employees on project activity.

Project development costs. Project development costs consist primarily of sales, engineering, legal, finance and third-party expenses directly related to the development of a specific customer opportunity. This also includes associated travel and marketing expenses.

General and administrative expenses. These expenses consist primarily of rents and occupancy, professional services, insurance, unallocated travel expenses, telecommunications, office expenses and amortization of intangible assets not related to customer contracts. Professional services consist principally of recruiting costs, external legal, audit, tax and other consulting services. For the years ended December 31, 2017 and 2016, we recorded amortization expense of \$1.4 million and \$2.2 million, respectively, related to customer relationships, non-compete agreements, technology and trade names. Amortization expense related to these intangible assets is included in selling, general and

administrative expenses in the consolidated statements of income (loss). For the year ended December 31, 2016, we recorded \$6.2 million in restructuring charges which consisted primarily of bad debt expense in our Canada segment, and a reserve for certain amounts receivable from a customer who declared bankruptcy.

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### Other Expenses, Net

Other expenses, net, includes gains and losses from derivatives, interest income and expenses, amortization of deferred financing costs, net, and foreign currency transaction gains and losses. Interest expense will vary periodically depending on the amounts drawn on our revolving senior secured credit facility and the prevailing short-term interest rates.

### Provision or Benefit for Income Taxes

The provision or benefit for income taxes is based on various rates set by federal and local authorities and is affected by permanent and temporary differences between financial accounting and tax reporting requirements.

### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expense and related disclosures. The most significant estimates with regard to these consolidated financial statements relate to 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. 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 critical accounting policies that, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### Revenue Recognition

For each arrangement we have with a customer, we typically provide a combination of one or more of the following services or products:

- installation or construction of energy efficiency measures, facility upgrades and/or a renewable energy plant to be owned by the customer;
- sale and delivery, under long-term agreements, of electricity, gas, heat, chilled water or other output of a renewable energy or central plant that we own and operate;
- O&M services provided under long-term O&M agreements;
- sale and delivery of PV equipment and other renewable energy products for which we are a distributor, whether under our own brand name or for others; and
- enterprise energy management and consulting services.

Often, we will sell a combination of these services and products in a bundled arrangement. We divide bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative selling price. The relative selling price is determined using third party evidence or management's best estimate of selling price. We recognize revenues from the installation or construction of a project on a percentage-of-completion basis. The percentage-of-completion for each project is determined on an actual cost-to-estimated final cost basis. In accordance with industry practice, we include in current assets and liabilities the amounts of receivables related to construction projects that are payable over a period in excess of one year. We recognize revenues associated with contract change orders only when the authorization for the change order has been properly executed and the work has been performed. When the estimate on a contract indicates a loss, or claims against costs incurred reduce the likelihood of recoverability of such costs, our policy is to record the entire expected loss immediately, regardless of the percentage of completion.

Deferred revenue represents circumstances where (i) there has been a receipt of cash from the customer for work or services that have yet to be performed, (ii) receipt of cash where the product or service may not have been accepted by

the customer or (iii) when all other revenue recognition criteria have been met, but an estimate of the final total cost cannot be

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determined. Deferred revenue will vary depending on the timing and amount of cash receipts from customers and can vary significantly depending on specific contractual terms. As a result, deferred revenue is likely to fluctuate from period to period. Unbilled 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.

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

We recognize revenues from O&M contracts, consulting services and enterprise energy management services as the related services are performed.

For a limited number of contracts under which we receive additional revenue based on a share of energy savings, we recognize such additional revenue as energy savings are generated.

For information regarding our adoption of ASC 606, Revenue Recognition, see “Note 2 - Summary of Significant Accounting Policies” included in our Notes to the Consolidated Financial Statements.

### Project Development Costs

We capitalize as project development costs only those costs incurred in connection with the development of energy efficiency and renewable energy projects, primarily direct labor, interest costs, outside contractor services, consulting fees, legal fees and associated travel, if incurred after a point in time when the realization of related revenue becomes probable. Project development costs incurred prior to the probable realization of revenues are expensed as incurred.

### Energy Assets

We capitalize interest costs relating to construction financing during the period of construction. The interest capitalized is included in the total cost of the project at completion. The amount of interest capitalized for the years ended December 31, 2017, 2016 and 2015 was \$4.3 million, \$1.3 million and \$0.9 million, 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 our assets. In these instances, the costs associated with these upgrades are capitalized and are depreciated over the shorter of the life of the asset or until the next required major maintenance or overhaul period. Gains or losses on disposal of property and equipment are reflected in selling, general and administrative expenses in the consolidated statements of income (loss).

We evaluate our long-lived assets for impairment as events or changes in circumstances indicate the carrying value of these assets may not be fully recoverable. Should an assessment be performed or triggering event identified, we evaluate 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, we recognize an impairment loss for the amount that the carrying value exceeds the fair value.

### Impairment of Goodwill and Intangible Assets

We have classified as goodwill the amounts paid in excess of fair value of the net assets (including tax attributes) of companies acquired in purchase transactions. We have recorded intangible assets related to customer contracts, customer relationships, non-compete agreements, trade names and technology, each with defined useful lives. We assess the impairment of goodwill and intangible assets that have indefinite lives on an annual basis (December 31st) 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. We regularly monitor current business conditions and other factors including, but not limited to, adverse industry or economic trends, restructuring actions and projections of future results. We estimate 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 our 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

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flows. These estimates are based on historical experiences, our projections of future operating activity and our weighted-average cost of capital.

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. We evaluate the intangible assets for impairment consistent with, and part of, their long-lived assets evaluation, as discussed in Energy Assets above.

### Impairment of Long-Lived Assets

We use the guidance prescribed in ASC 360, Property, Plant and Equipment, for the proper testing and valuation methodology to ensure we record any impairment when the carrying amount of a long-lived asset is not recoverable equivalent to an amount equal to its fair market value.

We review long-lived asset groups for potential impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Examples of such triggering events applicable to our asset groups include a significant decrease in the market price of a long-lived 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 group.

Should an asset group be identified as potentially impaired based on the defined criteria, an impairment test is performed that includes a comparison of the estimated undiscounted cash flows of the asset as compared to the recorded value of the asset. If these estimates or their related assumptions change in the future, an impairment charge may be required against these assets in the reporting period in which the impairment is determined.

### Derivative Financial Instruments

We account for our interest rate swaps as derivative financial instruments. As required under GAAP, derivatives are carried on our consolidated balance sheets at fair value. The fair value of our interest rate swaps is determined based on observable market data in combination with expected cash flows for each instrument.

We follow the guidance which expands the disclosure requirements for derivative instruments and hedging activities. In the normal course of business, we utilize derivative contracts as part of our risk management strategy to manage exposure to market fluctuations in interest rates. These instruments are subject to various credit and market risks. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. We seek to manage credit risk by entering into financial instrument transactions only through counterparties that we believe 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. We seek 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, we do not use derivatives for speculative purposes.

We are exposed to interest rate risk through our borrowing activities. A portion of our project financing includes four credit facilities, both project related and corporate, that utilize a variable rate swap instrument.

- Prior to December 31, 2009, we entered into two interest rate swap contracts under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to, in turn, receive an

amount equal to a specified variable rate of interest times the same notional principal amount. The first swap covers an initial notional amount of \$3.3 million variable rate note at a fixed interest rate of 5.3%, with an effective date of February 28, 2006, and expires in February 2021. The second swap covers an initial notional amount of \$13.1 million variable rate note at a fixed interest rate of 5.4%, with an effective date of September 30, 2008, and expires in March 2024.

In March 2010, we entered into a 14-year interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount

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of \$27.9 million variable rate note at a fixed interest rate of 3.7%, with an effective date of March 11, 2010, and expires in December 2024.

In July 2011, we entered into a five-year interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covered an initial notional amount of \$38.6 million variable rate note at a fixed interest rate of 2.0% and expired in June 2016. This interest rate swap was designated as a hedge since inception.

In October 2012, and in connection with a construction and term loan, we entered into two eight-year interest rate swap contracts under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps have an initial notional amount of \$16.8 million, which increased to \$42.2 million on September 30, 2013, at a fixed rate of 1.7%, and expires in March 2020.

In October 2012, we also entered into two eight-year forward starting interest rate swap contracts under which we agreed to pay an amount equal to specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover an initial notional amount of \$25.4 million variable rate note at a fixed interest rate of 3.7%, with an effective date of March 31, 2020, and expires in June 2028.

In September 2015, we entered into a seven-year forward starting interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$20.7 million variable rate note at a fixed interest rate of 2.2%, with an effective date of February 29, 2016, and expires in February 2023. This interest rate swap has been designated as a hedge since inception.

In September 2015, we also entered into a fifteen-year forward starting interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$14.1 million variable rate note at a fixed interest rate of 3.3%, with an effective date of February 28, 2023, and expires in December 2038. This interest rate swap has been designated as a hedge since inception.

In June 2017, we entered into a ten-year interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$14.1 million variable rate note at a fixed interest rate of 2.3%, with an effective date of June 27, 2017, and expires in December 2027. This interest rate swap has been designated as a hedge since inception. As of December 31, 2017 this hedge was operating ineffectively, which resulted in recognizing an immaterial amount of fair value loss in the consolidated statements of income (loss).

We entered into each of the interest rate swap contracts as an economic hedge.

We recognize all derivatives in our consolidated financial statements at fair value.

The interest rate swaps that we entered into prior to December 31, 2009 qualified, but were not designated as cash flow hedges until April 1, 2010. Accordingly, any changes in fair value through March 31, 2010 were reported in other expenses, net in our consolidated statements of income (loss) at fair value, and in the consolidated statements of comprehensive income (loss) thereafter. Cash flows from these derivative instruments are reported as operating activities on the consolidated statements of cash flows.

The interest rate swap that we entered into in March 2010 was a floating-to-fixed interest rate swap. 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 our

consolidated statements of income (loss) during the second quarter of 2014.

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The interest rate swaps that we entered into during 2011, 2012, 2015 and 2017 qualify, and were designated at inception, as cash flow hedges.

We recognize the fair value of derivative instruments designated as hedges in our consolidated balance sheets and any changes in the fair value are recorded as adjustments to other comprehensive income (loss) if the hedges operate effectively.

### Income Taxes

We provide for income taxes based on the liability method. We provide 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.

We account 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. We evaluate uncertain tax positions on a quarterly basis and adjust the level of the liability to reflect any subsequent changes in the relevant facts surrounding the uncertain positions. Our liabilities for an uncertain tax position 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. We consider 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; we have no plans to appeal or litigate any aspect of the tax position and we believe that it is highly unlikely that the taxing authority would examine or re-examine the related tax position. We also accrue for potential interest and penalties, related to unrecognized tax benefits in income tax expense. We have presented all deferred tax assets and liabilities as noncurrent on our consolidated balance sheet as of December 31, 2017, 2016 and 2015, respectively.

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%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. We recorded a tax benefit for the impact of the 2017 Tax Act of approximately \$13.9 million in our consolidated financial statements as of December 31, 2017. This amount is primarily comprised of the remeasurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate from 35% to 21%, after taking into account the mandatory one-time tax on the accumulated earnings of our foreign subsidiaries.

The Tax Legislation provided for a one-time deemed mandatory repatriation for post-1986 undistributed foreign subsidiary earnings and profits (“E&P”) through the year ended December 31, 2017. Our initial estimate shows a deficit in foreign E&P and significant foreign taxes paid, which may be creditable against any tax resulting from the deemed mandatory repatriation. We will continue to refine our calculations of foreign E&P during the measurement period, however we do not expect the deemed mandatory repatriation to result in material tax assessment.

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. We have 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, we have substantially completed our 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

our deferred assets and liabilities, the deemed mandatory repatriation or other applicable provisions of The Legislation will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act.

**Stock-Based Compensation Expense**

Our stock-based compensation expense results from the issuances of shares of restricted common stock and grants of stock options to employees, directors, outside consultants and others. We recognize the costs associated with option grants

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using the fair value recognition provisions of ASC 718, Compensation — Stock Compensation. Generally, ASC 718 requires the value of all stock-based payments to be recognized in the statement of operations based on their estimated fair value at date of grant amortized over the grants' respective vesting periods. For the years ended December 31, 2017, 2016 and 2015, we recorded stock-based compensation expense of approximately \$1.3 million, \$1.5 million, and \$1.8 million, respectively, in connection with stock-based payment awards. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options.

**Stock Option Grants**

We have granted stock options to certain employees and directors under our 2010 stock incentive plan and at December 31, 2017, 7,100,394 shares were available for grant under that plan. We have also granted stock options to certain employees and directors under our 2000 stock incentive plan; however, we will grant no further stock options or restricted stock awards under that plan.

Stock options issued under our 2000 stock incentive plan generally expire if not exercised within ten years after the grant date. Under the terms of our 2010 stock incentive plan, all options expire if not exercised within ten years after the grant date. During 2011, we began awarding options which typically vest over a five year period on an annual ratable basis. If the employee ceases to be employed for any reason before vested options have been exercised, the employee generally has three months to exercise vested options or they are forfeited. 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.

We follow the fair value recognition provisions of ASC 718 requiring that all stock-based payments to employees, including grants of employee stock options and modifications to existing stock options, be recognized in the consolidated statements of income (loss) based on their fair values, using the prospective-transition method. We use the Black-Scholes option pricing model to determine the weighted-average fair value of options granted and record stock-based compensation expense utilizing the straight-line method.

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The following table sets forth the significant assumptions used in the model during 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
Expected dividend yield	—%	—%	—%
Risk-free interest rate	1.96%-2.36%	1.16%-1.77%	1.53%-2.01%
Expected volatility	46%	46%-49%	44%-49%
Expected life	6.5 years	6.5-10 years	5.0-6.5 years

We will continue to use our judgment in evaluating the expected term, volatility and forfeiture rate related to our own stock-based compensation on a prospective basis, and incorporating these factors into the Black-Scholes pricing model. Higher volatility and longer expected lives result in an increase to stock-based compensation expense determined at the date of grant. These expenses will affect our cost of revenues as well as our selling, general and administrative expenses.

As of December 31, 2017, we had \$2.8 million of total unrecognized stock-based compensation expense related to employee and director stock options. We expect to recognize this cost over a weighted-average period of 2.3 years after December 31, 2017. The allocation of this expense between cost of revenues and selling, general and administrative expenses will depend on the salaries and work assignments of the personnel holding these options.

**Recent Accounting Pronouncements****Revenue from Contracts with Customers**



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), which will change the way we recognize revenue and costs related to customer contract and significantly expand the disclosure requirements for

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revenue arrangements. The new standard is effective for annual reporting periods beginning after December 15, 2017. The standard allows for two transition methods - retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption (modified retrospective method).

We 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, whereby ASC 606 would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in connection with the new standard and the Company's current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Accordingly, we have elected to retroactively adjust only those contracts that do not meet the definition of a complete contract at the date of the initial application. As ASC 606 supersedes substantially all existing revenue guidance affecting the Company under current GAAP, it will impact revenue and cost recognition across all of the Company's business segments, as well as its business processes and information technology systems.

We commenced our evaluation of the impact of ASC 606 in mid-2016, by evaluating its impact on existing contracts for each of our lines of business at each of our business segments. With this baseline understanding, we developed a project plan to evaluate numerous contracts across our business segments, develop processes and tools to dual report financial results under both current GAAP and ASC 606 and assess the internal control structure in order to adopt ASC 606 on January 1, 2018. We have substantially completed our evaluation and implementation of system updates and changes to internal controls over financial reporting to allow us to timely compile the information needed to account for transactions under this new guidance and to adjust our consolidated financial statements. We have periodically briefed our Audit Committee on our progress made towards adoption.

During the fourth quarter of 2017 we finalized our assessments over the impact that these new standards will have on our consolidated results of operations, financial position and disclosures. In adopting the previously mentioned ASUs, we expect the following significant changes in accounting principles:

Timing of revenue recognition for uninstalled materials - We currently recognize the majority of our revenue from the installation or construction of projects using the percentage-of-completion method of accounting, whereby revenue is recognized as we progress on the contract. The percentage-of-completion for each project is determined on an actual cost-to-estimated final cost basis. Under ASC 606, revenue will be recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). The cost of uninstalled materials or equipment will generally be excluded from our measure of progress, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress, unless the materials or equipment are delivered and expected to be installed by the Company in 90 days or less.

Deferral of incremental direct costs to obtaining a contract with a customer - We currently record certain incremental compensation (i.e., sales commissions) payable to our sales force as an expense when earned which is included in the measure of progress towards completion. Under ASC 606, we will continue to capitalize these costs and subsequently amortize the capitalized costs over a period of time that is consistent with the transfer of the related good or service to the customer. Capitalized costs, net of accumulated amortization, will be included in "Prepaid expenses and other current assets" and "Other assets" on our consolidated balance sheets. If the incremental cost incurred exceeds payments made, the accrued cost will be included in "Accrued expenses and other liabilities".

Timing of revenue recognition from renewable energy incentives - Under current accounting policies, we recognize revenue for SRECs and other renewable energy incentives when generated if we have a signed contract

to sell those SRECs or renewable energy incentives to a third party (thus making the sale price fixed and determinable). Under ASC 606, we will recognize SREC and other renewable energy incentive revenues when the rights are transferred to a third party, which can be up to six months after generation.

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Revenue of approximately \$9.1 million, that is reflected in the consolidated statement of income (loss) in 2017, will be recorded as a reduction in equity as an adjustment under the modified retrospective method. Additionally costs of approximately \$2.7 million, that are reflected in the consolidated statement of income (loss) in 2017, will be recorded as an increase in equity in connection with the modified retrospective adjustment. In connection with the change in accounting treatment we estimate that we will record a net deferred tax asset of approximately \$1.7 million. This is the result of timing differences in the recognition of revenue items and their associated costs for financial statement purposes versus the Tax Code. The cumulative impact of adopting the new accounting standard will result in a decrease in stockholders' equity, net of tax, of approximately \$4.7 million.

### Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350), which eliminates the requirement to compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill (commonly referred to as Step 2) from the goodwill impairment test. The new standard does not change how a goodwill impairment is identified. We will continue to perform our quantitative and qualitative goodwill impairment test by comparing the fair value of each reporting unit to its carrying amount, but if we are required to recognize a goodwill impairment charge, under the new standard the amount of the charge will be calculated by subtracting the reporting unit's fair value from its carrying amount. Under the prior standard, if we were required to recognize a goodwill impairment charge, Step 2 required us to calculate the implied value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination and the amount of the charge was calculated by subtracting the reporting unit's implied fair value of goodwill from its actual goodwill balance. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, and should be applied prospectively from the date of adoption. We elected to adopt the new standard for future goodwill impairment tests at the beginning of the fourth quarter of 2017, because it significantly simplifies the evaluation of goodwill for impairment. See Note 3 to the consolidated financial statements for further details.

### 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. We are currently evaluating the impact ASU 2017-12 will have on our 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. We are currently evaluating the impact of adopting the new standard on its consolidated financial statements.

### 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. We are currently evaluating the impact of ASU 2017-09, but does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting. The guidance in this ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and

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classification on the consolidated statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the consolidated statement of income (loss) and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. We adopted this guidance in the first quarter of fiscal 2017, and as a result of this adoption recorded a \$4.0 million 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. We have not changed our accounting policy in regards to forfeitures as a result of the adoption of this guidance. Our adoption of the new standard also resulted in the prospective classification of excess tax benefits as cash flows from operating activities in the same manner as other cash flows related to income taxes within the consolidated statements of cash flows. Based on the prospective method of adoption chosen, the classification of excess tax benefits within the consolidated statements of cash flows for prior periods presented has not been adjusted to reflect the change.

**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. We are currently evaluating the impact of ASU 2016-15, but do not expect that the adoption of this guidance will have a significant impact on our consolidated financial statements.

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

**Results of Operations**

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

	Year Ended December 31,					
	2017		2016		2015	
	Dollar	% of	Dollar	% of	Dollar	% of
	Amount	Revenues	Amount	Revenues	Amount	Revenues
Revenues	\$717,152	100.0 %	\$651,227	100.0 %	\$630,832	100.0 %
Cost of revenues	572,994	79.9 %	516,883	79.4 %	513,768	81.4 %
Gross profit	144,158	20.1 %	134,344	20.6 %	117,064	18.6 %
Selling, general and administrative expenses	107,570	15.0 %	110,568	17.0 %	110,007	17.4 %
Operating income	36,588	5.1 %	23,776	3.7 %	7,057	1.1 %
Other expenses, net	7,871	1.1 %	7,409	1.1 %	6,765	1.1 %
Income before provision (benefit) for income taxes	28,717	4.0 %	16,367	2.5 %	292	— %
Income tax (benefit) provision	(4,791 )	(0.7 )%	4,370	0.7 %	4,976	0.8 %
Net income (loss)	\$33,508	4.7 %	\$11,997	1.8 %	\$(4,684 )	(0.7 )%
Net loss attributable to redeemable non-controlling interest	\$3,983	0.6 %	\$35	— %	\$5,528	0.9 %

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Net income attributable to common shareholders	\$37,491	5.2	%	\$12,032	1.8	%	\$844	0.1	%
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## Revenues

The following table sets forth a comparison of our revenues for the periods indicated (in thousands):

Year Ended		Dollar	Percentage	
December 31,			Change	Change
2017	2016			
Revenues	\$717,152	\$651,227	\$65,925	10.1 %

Year Ended		Dollar	Percentage	
December 31,			Change	Change
2016	2015			
Revenues	\$651,227	\$630,832	\$20,395	3.2 %

Total revenues increased by \$65.9 million, or 10.1%, from 2016 to 2017 primarily due to a \$51.1 million increase in revenues from our U.S. Federal segment, a \$4.8 million increase in revenues from our Non-solar Distributed Generation (“DG”) segment, a \$13.4 million increase in revenues from our U.S. Regions segment and a \$3.2 million from All Other. These increases were partially offset by a \$6.6 million decrease in revenues from our Canada segment.

Total revenues increased by \$20.4 million, or 3.2%, from 2015 to 2016 primarily due to a \$50.4 million increase in revenues from our U.S. Federal segment, a \$12.8 million increase in revenues from our Non-solar DG segment and a \$1.2 million increase in revenues from our Canada segment. These increases were partially offset by a \$29.3 million decrease in revenues from our U.S. Regions segment and a \$14.7 million decrease in revenues from All Other.

## Cost of Revenues and Gross Margin

The following table sets forth a comparison of our cost of revenues and gross profit for the periods indicated (in thousands):

Year Ended December		Dollar	Percentage	
31,			Change	Change
2017	2016			
Cost of revenues	\$572,994	\$516,883	\$56,111	10.9 %
Gross margin %	20.1 %	20.6 %		

Year Ended December		Dollar	Percentage	
31,			Change	Change
2016	2015			
Cost of revenues	\$516,883	\$513,768	\$3,115	0.6 %
Gross margin %	20.6 %	18.6 %		

Cost of revenues. Total cost of revenues increased \$56.1 million, or 10.9%, from 2016 to 2017 due primarily to an increase in revenues from our U.S. Federal segment. Total cost of revenues increased by \$3.1 million, or 0.6%, from 2015 to 2016 due primarily to the increase in revenues described above, partially offset by cost budget revisions and a reserve for potential future losses totaling \$6.6 million on the significant project in our Canada segment recorded during 2015.

Gross margin. Gross margin decreased from 20.6% in 2016 to 20.1% in 2017. The decrease was due primarily to a mix of lower margin projects in our U.S. Regions segment. Gross margin increased from 18.6% in 2015 to 20.6% in 2016. The increase was due primarily to cost budget revisions on a significant project in our Canada segment during 2015, which resulted in a reduction in project to date revenues recognized and a reserve for potential future losses on the project recorded during 2015.



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## Selling, General and Administrative Expenses

The following table sets forth a comparison of our selling, general and administrative expenses for the periods indicated (in thousands):

	Year Ended		Dollar	Percentage
	December 31,			
	2017	2016	Change	Change
Selling, general and administrative expenses	\$107,570	\$110,568	\$(2,998)	(2.7)%

	Year Ended		Dollar	Percentage
	December 31,			
	2016	2015	Change	Change
Selling, general and administrative expenses	\$110,568	\$110,007	\$561	0.5%

Selling, general and administrative expenses decreased \$3.0 million or 2.7% to \$107.6 million from 2016 to 2017 primarily due to \$2.1 million in restructuring charges incurred during 2016, which included \$1.9 million in bad debt expense in our Canada segment related to our restructuring efforts, and \$2.9 million in write-downs, primarily in accounts receivable related to a customer that declared bankruptcy during 2016, offset by higher project development costs incurred during 2017.

Selling, general and administrative expenses were relatively flat at \$110.6 million and \$110.0 million in 2016 and 2015, respectively, with higher recurring expenses in 2016 offset by restructuring charges of \$6.6 million in 2015.

## 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 from 2016 to 2017 by \$0.5 million primarily due to an increase in interest expense offset by favorable foreign exchange rate fluctuations realized in 2017. Other expenses, net, increased from 2015 to 2016 by \$0.6 million primarily due to an increase in interest expense and a decrease in interest income partially offset by favorable foreign exchange rate fluctuations realized in 2016.

## Income Before Taxes

Income before taxes increased from 2016 to 2017 by \$12.4 million, or 75.5% and increased from 2015 to 2016 by \$16.1 million, or 5,505.1%, primarily due to the reasons described above.

## Provision for Income Taxes

The provision (benefit) for income taxes is based on various rates set by federal, state, provincial and local authorities and is affected by permanent and temporary differences between financial accounting and tax reporting requirements. During 2017, we recognized an income tax benefit of \$4.8 million, equivalent to an effective tax rate of (16.7)%. The effective tax rate decreased significantly primarily due to the change in the U.S. tax law. Specifically, on December 22, 2017, the U.S. federal government enacted comprehensive tax legislation (defined as the "Tax Act" above), which significantly revises the U.S. corporate income tax law by, among other things, lowering the U.S. federal corporate income tax rate from 35% to 21%, implementing a territorial tax system, imposing a one-time transition tax on foreign unremitted earnings, and setting limitations on deductibility of certain costs (e.g., interest expense).

Due to the complexities involved in accounting for the recently enacted 2017 Tax Act, the U.S. Securities and Exchange Commission's SAB 118 requires that we include in our consolidated financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such reasonable estimate has been determined. Accordingly, the U.S. provision for income tax for 2017 is based on the reasonable estimate guidance provided by SAB 118. We are continuing to assess the impact from the Tax Act and will record adjustments in 2018 if deemed necessary.

We recorded a deferred U.S. income tax benefit in 2017 of approximately \$13.9 million, relating to the revaluation of deferred tax assets and liabilities resulting from the reduced federal tax rate in the recently enacted 2017 Tax Act. We also had a \$6.3 million tax benefit resulting from investment tax credits associated with new renewable energy plants

we placed in service in 2017. The investment tax credits to which we are entitled fluctuate from year to year based on the cost of the renewable energy plants that we place or expect to place in service in that year.

During 2016, we recognized an income tax provision of \$4.4 million, or 26.7% of pretax income. The principal reasons for the difference between the statutory rate and the estimated annual effective rate for 2016 relate to the effects of the tax deduction under Internal Revenue Code Section 179D and production tax credits to which we are entitled from plants we own.

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The investment tax credits to which we are entitled fluctuate from year to year based on the cost of the renewable energy plants that we place or expect to place in service in that year. There were no owned renewable energy plants placed in service during the year and therefore no investment tax credits included in the rate for the year.

In addition, the tax deduction under Internal Revenue Code Section 179D was retroactively extended in the fourth quarter of 2015 and expired on December 31, 2016. The amount of the deduction to which we are entitled would vary in accordance with the number of qualifying projects completed during the year and any impact on our effective tax rate would further depend on the magnitude of the available deduction.

During 2015, we recognized an income tax provision of \$5.0 million, or 1,704.1% of pretax income. The principal reason for the difference between the statutory rate and the annual effective rate were the effects of the valuation allowance required for the Canada losses and the effects of the net loss attributable to redeemable non-controlling interest partially offset by energy efficiency tax benefits.

**Net Income (Loss)**

Net income increased \$21.5 million to a net income of \$33.5 million for the twelve months ended December 31, 2017 compared to a net income of \$12.0 million for the same period of 2016 for the reasons discussed above. Basic and diluted loss per share for the twelve months ended December 31, 2017 were \$0.82 per share, an increase of \$0.56 per share, compared to the same period of 2016.

Net income increased \$16.7 million to a net income of \$12.0 million for the twelve months ended December 31, 2016 compared to a net loss of \$4.7 million for the same period of 2015 for the reasons discussed above. Basic and diluted loss per share for the twelve months ended December 31, 2016 were \$0.26 per share, an increase of \$0.24 per share, compared to the same period of 2015.

**Business Segment Analysis (in thousands)**

We report results under ASC 280, Segment Reporting. Our reportable segments for the year ended December 31, 2017 are U.S. Regions, U.S. Federal, Canada and Non-Solar Distributed 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 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. The Company's U.S. Regions segment also 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**

	Year Ended		Dollar	Percentage
	December 31,			
	2017	2016	Change	Change
Revenues	\$290,196	\$276,766	\$13,430	4.9 %
Income before taxes	\$13,865	\$19,802	\$(5,937)	(30.0)%

	Year Ended		Dollar	Percentage
	December 31,			
	2016	2015	Change	Change
Revenues	\$276,766	\$306,086	\$(29,320)	(9.6)%
Income before taxes	\$19,802	\$25,856	\$(6,054)	(23.4)%

Revenues for the U.S. Regions segment increased by \$13.4 million, or 4.9%, to \$290.2 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to an increase in project revenues attributed to an increase in the average project size of projects versus the prior year. Project revenues for the year ending December 31, 2017 were negatively impacted by unanticipated delays caused by Hurricane Harvey. These delays resulted in a shortfall in expected revenue of \$12.5 million.

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Revenues for the U.S. Regions segment decreased by \$29.3 million, or 9.6%, to \$276.8 million for the twelve months ended December 31, 2016 compared to the same period of 2015 primarily due to a decrease in the number of projects. Income before taxes for the U.S. Regions segment decreased by \$5.9 million, or 30.0%, for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to a decrease in gross profit attributed to the mix of lower margin projects. Results for the year ending December 31, 2017 were negatively impacted by unanticipated delays caused by Hurricane Harvey. These delays resulted in a shortfall in expected earnings of \$5.5 million.

Income before taxes for the U.S. Regions segment decreased by \$6.1 million, or 23.4%, for the twelve months ended December 31, 2016 compared to the same period of 2015 primarily due to the decrease in revenues described above, which resulted in decreased operating leverage.

## U.S. Federal

	Year Ended		Dollar	Percentage	
	December 31,			Change	Change
	2017	2016			
Revenues	\$229,146	\$178,005	\$51,141	28.7	%
Income before taxes	\$29,261	\$22,246	\$7,015	31.5	%

	Year Ended		Dollar	Percentage	
	December 31,			Change	Change
	2016	2015			
Revenues	\$178,005	\$127,620	\$50,385	39.5	%
Income before taxes	\$22,246	\$16,676	\$5,570	33.4	%

Revenues for the U.S. Federal segment increased by \$51.1 million, or 28.7%, to \$229.1 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to an increase in project revenues related to the increase in average project size of projects versus the prior year. This increase is primarily attributed to larger comprehensive projects which integrate multiple technologies.

Revenues for the U.S. Federal segment increased from 2015 to 2016 by \$50.4 million, or 39.5%, to \$178.0 million primarily due to an increase in the contract value of projects and the timing of revenue recognized as a result of the phase of projects.

Income before taxes for the U.S. Federal segment increased by \$7.0 million, or 31.5%, to \$29.3 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to the increase in revenues described above partially offset by higher project development costs during 2017.

Income before taxes for the U.S. Federal segment increased from 2015 to 2016 by \$5.6 million, or 33.4%, to \$22.2 million. The increase was primarily due to the increase in revenues described above partially offset by a budget revision on a large project in the second quarter of 2016.

## Canada

	Year Ended		Dollar	Percentage	
	December 31,			Change	Change
	2017	2016			
Revenues	\$43,803	\$50,448	\$(6,645)	(13.2)	%
Income before taxes	\$1,751	\$(2,330)	\$4,081	175.2	%

	Year Ended		Dollar	Percentage	
	December 31,			Change	Change
	2016	2015			
Revenues	\$50,448	\$49,235	\$1,213	2.5	%
Loss before taxes	\$(2,330)	\$(15,449)	\$13,119	84.9	%

Revenues for the Canada segment decreased \$6.6 million, or 13.2%, to \$43.8 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to a decrease in project revenues related to a significant low margin project which was completed during the third quarter of 2017.

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Revenues for the Canada segment increased from 2015 to 2016 by \$1.2 million, or 2.5%, to \$50.4 million, primarily due to cost budget revisions, during the first quarter of 2015, on a significant project which resulted in a reduction in project to date revenues recognized in 2015, as well as an increase in the size of active projects in 2016.

Income before taxes for the Canada segment increased \$4.1 million, or 175.2%, to income of \$1.8 million for the twelve months ended December 31, 2017 compared to a loss of \$2.3 million for the same period of 2016 primarily due to the decrease in project revenues related to the significant low margin project described above, \$1.9 million of bad debt expense related to our previously disclosed restructuring efforts in Canada recorded during 2016, and favorable foreign currency exchange rate fluctuations realized during 2017.

Loss before taxes for the Canada segment decreased from 2015 to 2016 by \$13.1 million, or 84.9%, to a loss of \$2.3 million primarily due to a reserve in 2015 for potential future losses on the significant project described above as well as improved gross margin on active projects in 2016, partially offset by \$1.9 million of bad debt expense recorded during the second quarter of 2016.

## Non-Solar DG

	Year Ended December 31,		Dollar	Percentage
	2017	2016	Change	Change
Revenues	\$79,220	\$74,395	\$4,825	6.5 %
Income before taxes	\$8,115	\$9,301	\$(1,186)	(12.8)%

	Year Ended December 31,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$74,395	\$61,626	\$12,769	20.7 %
Income before taxes	\$9,301	\$7,609	\$1,692	22.2 %

Revenues for the Non-solar DG segment increased \$4.8 million, or 6.5%, to \$79.2 million for the twelve months ended December 31, 2017 primarily due to an increase in project revenues from the development of small-scale plants we are constructing for customers and energy and incentive revenue from renewable gas assets the Company owns. Revenues for the Non-solar DG segment increased from 2015 to 2016 by \$12.8 million, or 20.7%, to \$74.4 million primarily due to project revenues for the active development of small-scale plants we are constructing for customers during 2016, as compared to 2015 where no similar projects were in development.

Income before taxes for the Non-solar DG segment was relatively flat at \$8.1 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to the increase in revenues described above offset by increased interest expense attributed to an increase in project financing activity in 2017 for assets placed in service.

Income before taxes for the Non-solar DG segment increased by \$1.7 million, or 22.2%, to \$9.3 million for the twelve months ended December 31, 2016 compared to the same period of 2015 primarily due to the increase in revenues described above.

## All Other

	Year Ended December 31,		Dollar	Percentage
	2017	2016	Change	Change
Revenues	\$74,787	\$71,613	\$3,174	4.4 %
Income (loss) before taxes	\$2,920	\$(427)	\$3,347	783.8 %
Unallocated corporate activity	\$(27,195)	\$(32,225)	\$5,030	15.6 %

	Year Ended December 31,	Dollar	Percentage
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	2016	2015	Change	Change
Revenues	\$71,613	\$86,265	\$(14,652)	(17.0)%
Loss before taxes	\$(427)	\$(8,323)	\$7,896	94.9%
Unallocated corporate activity	\$(32,225)	\$(26,077)	\$(6,148)	(23.6)%

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Revenues from all other segments increased \$3.2 million, or 4.4%, to \$74.8 million for the twelve months ended December 31, 2017 compared to the same period of 2016 primarily due to an increase in integrated-PV revenues attributed to sales to customers for oilfield microgrid applications, which rebounded in 2017, partially offset by a decrease in revenues from business assets sold during the first quarter of 2017.

Revenues from all other segments decreased from 2015 to 2016 by \$14.7 million, or 17.0%, to \$71.6 million primarily due to our anticipated decrease in integrated-PV sales as a result of a weakening of sales to customers for oilfield microgrid applications.

Income (loss) before taxes from all other segments increased \$3.3 million to income of \$2.9 million for the twelve months ended December 31, 2017 compared to a loss of \$0.4 million for the same period of 2016 primarily due to increased integrated-PV revenues as described above as well as improved profitability following the sale of business assets described above.

Loss before taxes from all other segments improved from 2015 to 2016 by \$7.9 million from a loss of \$8.3 million to a loss of \$0.4 million primarily due to the positive impact of our 2015 restructuring efforts, including cost savings realized in our software group from a lower headcount.

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.

Corporate activity decreased by \$5.0 million, or 15.6%, to \$27.2 million primarily due to \$3.2 million in reserves for certain amounts receivable from a customer who declared bankruptcy during 2016.

Corporate activity increased from 2015 to 2016 by \$6.1 million, or 23.6%, to \$32.2 million primarily due to \$3.2 million in reserves for certain amounts receivable from a customer who declared bankruptcy.

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.

The changes in cash and cash equivalents for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Year Ended December 31,		
	2017	2016	2015
Cash flows used in operating activities	\$(136,559)	\$(58,073)	\$(49,538)
Cash flows used in investing activities	(88,042 )	(79,616 )	(51,829 )
Cash flows provided by financing activities	228,088	137,301	100,705
Effect of exchange rate changes on cash	168	(650 )	(1,455 )
Net increase (decrease) in cash and cash equivalents	\$3,655	\$(1,038 )	\$(2,117 )

We believe that cash and cash equivalents, and availability under our revolving senior secured credit facility, combined with our access to the credit markets, will be sufficient to fund our operations through at least March 6, 2019 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, \$165.0 million, as of year ended December 31, 2017, are recorded as financing cash inflows. The use of the cash received under these arrangements is to pay project costs classified as operating cash flows \$(157.5) million as of the year ending December 31, 2017. 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



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Note 2, “Summary of Significant Accounting Policies”, to our Consolidated Financial Statements appearing in Item 8 of this Annual Report on Form 10-K.

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.

Capital expenditures. Our total capital expenditures were \$88.4 million, \$76.0 million, and \$52.7 million for the twelve months ended December 31, 2017, 2016 and 2015, respectively. Additionally, we invested \$2.4 million in acquisitions of renewable energy plants, net of debt assumed, for the twelve months ended December 31, 2017, and \$3.6 million in acquisitions for the twelve months ended December 31, 2016. We currently plan to invest approximately \$60.0 million to \$85.0 million in capital expenditures in 2018, principally for the development or acquisition of new renewable energy plants.

Cash flows from operating activities. Operating activities used \$136.6 million of net cash during 2017. In 2017, we had net income of \$33.5 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$22.2 million. Net increases in restricted cash, costs and estimated earnings in excess of billings, prepaid expenses and other current assets, project development costs, and other assets and decreases in billings in excess of cost and estimated earnings, other liabilities and income taxes payable used \$61.5 million. These uses of cash were partially offset by a decrease in accounts receivable including retainage, inventory, and increase in accounts payable and accrued expenses which provided \$26.8 million. Federal ESPC receivables used \$157.5 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 \$58.1 million of net cash during 2016. In 2016, we had a net income of \$12.0 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$35.8 million. Net increases in restricted cash, prepaid expenses and other current assets, accounts receivable including retainage and other assets and decreases in accounts payable and accrued expenses and other current liabilities and other liabilities used \$20.5 million. These uses of cash were partially offset by a decrease in inventory, costs and estimated earnings in excess of billings and billings in excess of cost and estimated earnings and project development costs and increases in income taxes payable which provided \$31.5 million. Federal ESPC receivables used \$116.8 million.

Operating activities provided \$49.5 million of net cash during 2015. In 2015, we had a net loss of \$4.7 million, which is net of non-cash compensation, depreciation, amortization, gains on sales of assets, deferred income taxes and other non-cash items totaling \$37.2 million. Increases in restricted cash and increases in accounts payable and accrued expenses and other current liabilities and incomes taxes payable provided \$30.6 million. However, net increases in accounts receivable including retainage, inventory, costs and estimated earnings in excess of billings and billings in excess of cost and estimated earnings, prepaid expenses and other current assets, project development costs and other assets and decreases in other liabilities used \$39.3 million. Federal ESPC receivables used \$73.2 million.

Cash flows from investing activities. Cash used for investing activities totaled \$88.0 million during 2017 and consisted of capital investments of \$88.0 million related to the development and acquisition of renewable energy plants and \$2.9 million related to purchases of other property and equipment. Offsetting these amounts was \$2.8 million in proceeds from the sale of assets from a business.

Cash used for investing activities totaled \$79.6 million during 2016 and consisted of capital investments of \$73.2 million related to the development of renewable energy plants, \$2.8 million related to purchases of other property and equipment and \$3.6 million related to acquisitions of renewable energy plants.

Cash used for investing activities totaled \$51.8 million during 2015 and consisted of capital investments of \$51.3 million related to the development of renewable energy plants and \$1.3 million related to purchases of other property and equipment. Offsetting these amounts was \$0.9 million in proceeds from the sale of a project asset in Canada.

Cash flows from financing activities. Net cash provided by financing activities totaled \$228.1 million during 2017 and included repayments of \$54.2 million on long-term debt, payments of \$2.9 million relating to financing fees, \$3.4 million for the repurchase of stock and placed \$2.1 million into restricted cash accounts. These uses of financing cash were offset by proceeds from long-term debt financing of \$48.5 million, proceeds from sale-leaseback financings of \$51.2 million, proceeds

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from redeemable non-controlling interest of \$7.5 million, proceeds from our senior secured credit facility of \$12.5 million, and exercises of options which provided \$2.0 million. Proceeds from Federal ESPC projects and energy assets provided \$169.0 million in cash.

Net cash provided by financing activities totaled \$137.3 million during 2016 and included repayments of \$14.0 million on long-term debt, payments of \$1.9 million relating to financing fees and \$6.4 million for the repurchase of stock. These uses of financing cash were offset by proceeds from long-term debt financing of \$38.0 million, proceeds from sale-leaseback financings of \$17.0 million, proceeds from redeemable non-controlling interest of \$6.4 million, proceeds from our senior secured credit facility of \$3.8 million, releases of restricted cash of \$3.2 million and exercises of options, which provided \$1.1 million. Proceeds from Federal ESPC projects provided \$90.0 million in cash.

Net cash provided by financing activities totaled \$100.7 million during 2015 and included repayments of \$12.4 million on long-term debt, \$5.7 million placed into restricted cash accounts and payments of \$2.7 million relating to financing fees. These uses of financing cash were offset by proceeds from our senior secured credit facility of \$6.3 million, exercises of options, which provided \$1.2 million, proceeds from sale-leaseback financings of \$12.5 million, proceeds from long-term debt financing of \$17.7 million and proceeds from redeemable non-controlling interest of \$6.0 million. Proceeds from Federal ESPC projects provided \$78.0 million in cash.

We currently plan additional financings of \$100.0 million to \$110.0 million in 2018.

#### Senior Secured Credit Facility — Revolver and Term Loan

On June 30, 2015, we entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extends our existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016. The revolving credit and term loan facility mature on June 30, 2020, when all amounts will be due and payable in full. We expect to use the new credit facility for our general corporate purposes, including permitted acquisitions, refinancing of existing indebtedness and working capital. In July 2016, we entered into an amendment to the third amended and restated bank credit facility that amended the requirement of the total funded debt to EBITDA ratio. In November 2016, we entered into an additional amendment to the third amended and restated bank credit facility that increased the amount of the term loan under the credit facility by approximately \$20.0 million to an aggregate of \$30.0 million and extended the maturity date of the term loan from June 30, 2018 to June 30, 2020. In June 2017, we entered into an additional amendment to the third amended and restated bank credit facility that increased the amount available to be drawn on the revolving credit facility from \$60.0 million to \$75.0 million. This amendment also amended the requirement of the total funded debt to EBITDA ratio as described below.

The credit facility consists of a \$75.0 million revolving credit facility and a \$30.0 million term loan. The revolving credit facility may be increased by up to an additional \$25.0 million at our option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20.0 million of the revolving credit facility may be borrowed in Canadian dollars, Euros and Pounds Sterling. We are the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of our direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of our and such of our subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries (as defined in the agreement). At December 31, 2017 and 2016, \$22.5 million and \$28.5 million, was outstanding under the term loan, respectively. At December 31, 2017 and 2016, \$27.6 million and \$15.0 million was outstanding under the revolving credit facility, respectively. At December 31, 2017 funds of \$38.9 million was available for the revolving credit facility.

The interest rate for borrowings under the credit facility is based on, at our option, either (1) a base rate equal to a margin of 0.5% or 0.25%, depending on our ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50% , (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on our ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility. At December 31, 2017, the interest rate for borrowings under the revolving credit facility was 5.00% and the weighted average interest rate for

borrowings under the term loan was 3.45%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1.5 million, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at our option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

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

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

- a ratio of total funded debt to EBITDA of less than 2.75 to 1.0 as of the end of each fiscal quarter ending September 30, 2016 and thereafter; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

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

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

As of December 31, 2017, we were in compliance with all of the financial and operational covenants in the senior credit facility. In addition, we do not consider it likely that we will fail to comply with these covenants for the next twelve months.

#### Project Financing

**Construction and Term Loans.** We have entered into a number of construction and term loan agreements for the purpose of constructing and owning certain renewable energy plants. The physical assets and the operating agreements related to the renewable energy plants are owned by wholly owned, single member special purpose subsidiaries. These construction and term loans are structured as project financings made directly to a subsidiary, and upon acceptance of a project, the related construction loan converts into a term loan. While we are required under GAAP to reflect these loans as liabilities on our consolidated balance sheet, they are generally non-recourse and not direct obligations of Ameresco, Inc. As of December 31, 2017, we had outstanding \$117.8 million in aggregate principal amount under these loans with maturities at various dates from 2017 to 2034. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 3.4% to 7.3%. As of December 31, 2016, we had outstanding \$108.0 million in aggregate principal amount under these loans, bearing interest at rates ranging from 4.7% to 13.0% and maturing at various dates from 2017 to 2031. As of December 31, 2015, we had outstanding \$87.5 million in aggregate principal amount under these loans, bearing interest at rates ranging from 4.7% to 7.3% and maturing at various dates from 2017 to 2028.

In September 2015, we entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar PV projects currently under construction. The credit and guaranty agreement provides for a \$20.7 million construction-to-term loan credit facility and bears interest at a variable rate. On March 30, 2016, the construction loan was converted to a term loan. At December 31, 2017, \$18.3 million was outstanding under the term loan. The variable rate for this loan at December 31, 2017 was 4.2%.

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

At December 31, 2017, \$4.6 million was outstanding under the term loan.

In November 2016, we entered into a construction loan agreement with a bank for use in providing non-recourse financing for certain solar PV projects currently under construction. The construction loan agreement provides for a \$35.0 million construction facility that bears interest at a variable rate. The facility matures on June 30, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017, \$1.7 million was outstanding under the construction loan. The variable rate for this loan at December 31, 2017 was 6.75%. We

have classified this debt as non-current as of December 31, 2017, due to our intention to refinance the variable rate construction loan to sale-leasebacks prior to the maturity date.



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In November 2016, we entered into a construction loan agreement with a bank for use in providing non-recourse financing for a certain natural gas to energy project currently under construction. The construction loan agreement provides for a \$9.5 million construction facility. The facility matures on March 1, 2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. The construction loan was paid in full during the year ended December 31, 2017, thus at December 31, 2017, no amount was outstanding under the construction loan.

In December 2016, we acquired a solar PV project currently under construction as well as an associated construction loan agreement with a bank for use in providing non-recourse financing for this acquired solar PV project currently under construction. The construction loan agreement provided for a \$10.7 million construction facility and bore interest at a fixed rate of 13.0%. The facility matured on May 30, 2017, and all remaining unpaid amounts outstanding under the facility were paid at that time. We had previously classified this debt as non-current due to our intention to refinance the construction loan to a term loan prior to the maturity date. We did refinance the construction loan to a term loan during the year ended December 31, 2017. This construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provides for a 60-day notice period to repay the construction loan balance. The bank did not exercise the subjective acceleration clause during the term of the loan agreement.

In January 2017, we acquired two solar PV projects currently under construction as well as associated construction loan agreements with a bank for use in providing non-recourse financing for these acquired solar PV projects currently under construction. The construction loans agreements provided for construction facilities of \$3.8 million and \$4.0 million and both facilities bore interest at a fixed rate of 13.0%. These facilities matured on May 30, 2017 and May 26, 2017, respectively, and all remaining unpaid amounts outstanding under each respective facility were paid at those times. We had classified both construction loans as non-current due to the our intention to refinance the construction loans to term loans prior to the maturity dates. We did refinance the construction loans to a term loan during the year ended December 31, 2017. Each construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provided for a 60-day notice period to repay the respective construction loan balance. The bank did not exercise the subjective acceleration clauses during the term of the loan agreement.

In March 2017, we entered into a credit agreement with a bank for use in providing non-recourse financing for a certain solar PV project in operation. The credit agreement provides for a \$4.3 million construction-to-term-loan credit facility and bears interest at a fixed rate of 5.5% during the construction phase and 5.0% during the term loan phase, with interest payments due monthly. The construction loan automatically converts to a term loan on March 24, 2018 and matures on March 24, 2028, and all remaining unpaid amounts outstanding under the agreement will be due at that time. At December 31, 2017, \$4.3 million was outstanding under the construction loan.

In April 2017, we entered into a non-recourse construction-to-term loan agreement with a municipal corporation to finance construction costs on a certain Biogas Facility project in development. The construction-to-term loan agreement provides for a \$24.8 million facility and bears interest at a fixed rate of 4.5% during both the construction and term loan phases, with interest payments due monthly. The construction loan converts to a term loan upon completion of the Biogas Facility and matures ten years after the conversion date, with all remaining unpaid amounts outstanding under the agreement due at that time. At December 31, 2017, \$13.3 million was outstanding under the construction loan.

In April 2017, we entered into a credit and guaranty agreement with a bank for use in providing limited recourse financing for certain of our solar PV projects in operation. The credit and guaranty agreement provided for a term loan credit facility with an original principal balance of \$3.2 million and bears interest at a fixed rate of 5.6% with interest payments due in quarterly installments. The term loan matures on February 28, 2034, and all remaining unpaid amounts outstanding under the credit and guaranty agreement will be due at that time. At December 31, 2017, \$3.2 million was outstanding under the term loan.

In June 2017, we entered into a loan agreement for use in providing non-recourse financing for certain of our solar PV projects currently in operation. The loan agreement provides for a \$14 million term loan credit facility and bears

interest at a variable rate, with interest payments due in quarterly installments. The term loan matures on December 15, 2027, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017, \$14.1 million was outstanding under the term loan. The variable rate for this loan at December 31, 2017 was 4.04%.

One loan, with an outstanding balance as of December 31, 2017 of \$2.2 million, does require Ameresco, Inc. to provide assurance to the lender of the project performance. A second loan, entered into during 2012, with an outstanding balance at December 31, 2017 of \$32.7 million, requires Ameresco, Inc. to provide assurance to the lender of reimbursement upon any recapture of certain renewable energy government cash grants upon the occurrence of events that cause the recapture of such grants.

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These construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of December 31, 2017, we were in compliance with all of these financial and operational covenants. In addition, we do not consider it likely that we will fail to comply with these covenants during the term of these agreements.

**Federal ESPC liabilities.** We have arrangements with certain lenders to provide advances to us during the construction or installation of projects for certain customers, typically federal governmental entities, in exchange for our assignment to the lenders of our rights to the long-term receivables arising from the ESPCs related to such projects. These financings totaled \$235.1 million and \$133.0 million in principal amounts at December 31, 2017 and 2016, respectively. Under the terms of these financing arrangements, we are required to complete the construction or installation of the project in accordance with the contract with our customer, and the debt remains on our consolidated balance sheet until the completed project is accepted by the customer.

**Sale-Leaseback.** During the first quarter of 2015, we entered into an agreement with an investor which gives us the option to sell and contemporaneously lease back solar PV projects. In September 2016, we amended our agreement with the investor whereas the investor has committed up to a maximum combined funding amount of \$100.0 million through June 30, 2017 on certain projects. In May 2017, we amended our agreement with the investor to extend the end date of the agreement to June 30, 2018. As of December 31, 2017, \$23.3 million remained available under the lending commitment all though this amount is not expected to be used. During the year ended December 31, 2017, we sold twelve solar PV projects and in return received \$47.2 million as part of this arrangement. Additionally, we had a second sale-lease back project which sold for \$2.0 million. During the year ended December 31, 2016, we sold six solar PV projects and in return received \$17.0 million as part of this arrangement. While we are required under GAAP to reflect these lease payments as liabilities on our consolidated balance sheet, they are generally non-recourse and not direct obligations of Ameresco, Inc., except that Ameresco, Inc. has guaranteed certain obligations relating to taxes and project warranties, operation and maintenance.

**Contractual Obligations**

The following table summarizes our significant contractual obligations and commitments as of December 31, 2017 (in thousands):

	Payments due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
<b>Senior Secured Credit Facility:</b>					
Revolver	\$27,580	\$—	\$27,580	\$—	\$—
Term Loan	22,500	6,000	16,500	—	—
<b>Project Financing:</b>					
Construction and term loans	117,771	12,074	54,402	27,862	23,433
Federal ESPC liabilities(1)	235,088	—	235,088	—	—
Interest obligations(2)	71,973	10,749	17,568	13,307	30,349
Capital lease liabilities	35,013	4,300	13,623	4,009	13,081
Operating leases	26,886	5,549	8,540	5,630	7,166
<b>Total</b>	<b>\$536,811</b>	<b>\$38,672</b>	<b>\$373,301</b>	<b>\$50,808</b>	<b>\$74,029</b>

(1) Federal ESPC arrangements relate to the installation and construction of projects for certain customers, typically federal governmental entities, where we assign to third-party lenders our right to customer receivables. We are relieved of the liability, without making a payment, when the project is completed and accepted by the customer. We typically expect to be relieved of the liability between one and three years from the date of project construction commencement. The table does not include, for our Federal ESPC liability arrangements, the difference between the aggregate amount of the long-term customer receivables sold by us to the lender and the

amount received by us from the lender for such sale.

For both the revolving and term loan portions of our senior secured credit facility, the table above assumes that (2) the variable interest rate in effect at December 31, 2017 remains constant for the term of the facility. Excludes interest on construction loans payable and lines of credit due to no stated payment terms.

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Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheet. The Company from time to time issues letters of credit and performance bonds, with their third-party lenders, to provide collateral.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through fixed and variable rate debt instruments and denominate our transactions in U.S. and Canadian dollars and British pounds sterling (“GBP”). Changes in these rates may have an impact on future cash flows and earnings. We manage these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

Interest Rate Risk

We had cash and cash equivalents totaling \$24.3 million as of December 31, 2017 and \$20.6 million as of December 31, 2016. Our exposure to interest rate risk primarily relates to the interest expense paid on our senior secured credit facility.

Derivative Instruments

We do not enter into financial instruments for trading or speculative purposes. However, through our subsidiaries we do enter into derivative instruments for purposes other than trading purposes. Certain of the term loans that we use to finance our renewable energy projects bear variable interest rates that are indexed to short-term market rates. We have entered into interest rate swaps in connection with these term loans in order to seek to hedge our exposure to adverse changes in the applicable short-term market rate. In some instances, the conditions of our renewable energy project term loans require us to enter into interest rate swap agreements in order to mitigate our exposure to adverse movements in market interest rates. The interest rate swaps that we have entered into qualify and have been designated as fair value hedges. See Note 2 of “Notes to Consolidated Financial Statements” included in Item 8 of this Annual Report on Form 10-K.

By using derivative instruments, we are subject to credit and market risk. The fair market value of the derivative instruments is determined by using valuation models whose inputs are derived using market observable inputs, including interest rate yield curves, and reflects the asset or liability position as of the end of each reporting period. When the fair value of a derivative contract is positive, the counterparty owes us, thus creating a receivable risk for us. We are exposed to counterparty credit risk in the event of non-performance by counterparties to our derivative agreements. We minimize counterparty credit (or repayment) risk by entering into transactions with major financial institutions of investment grade credit rating.

Our exposure to market interest rate risk is not hedged in a manner that completely eliminates the effects of changing market conditions on earnings or cash flow.

Foreign Currency Risk

We have revenues, expenses, assets and liabilities that are denominated in foreign currencies, principally the Canadian dollar and British pound sterling (“GBP”). Also, a significant number of employees are located in Canada and the U.K., and our subsidiaries in those countries transact business in those respective currencies. As a result, we have designated the Canadian dollar as the functional currency for Canadian operations. Similarly, the GBP has been designated as the functional currency for our operations in the U.K. When we consolidate the operations of these foreign subsidiaries into our financial results, because we report our results in U.S. dollars, we are required to translate the financial results and position of our foreign subsidiaries from their respective functional currencies into U.S. dollars. We translate the revenues, expenses, gains, and losses from our Canadian and U.K. subsidiaries into U.S. dollars using a weighted average exchange rate for the applicable fiscal period. We translate the assets and liabilities of our Canadian and U.K. subsidiaries into U.S. dollars at the exchange rate in effect at the applicable balance sheet date. Translation adjustments are not included in determining net income for the period but are disclosed and accumulated in a separate

component of consolidated equity until sale or until a complete or substantially complete liquidation of the net investment in our foreign subsidiary takes place. Changes in the values of these items from one period to the next which result from exchange rate fluctuations are recorded in our consolidated statements of changes in stockholders' equity as accumulated other comprehensive loss. For the year ended December 31, 2017, due to the strengthening

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of the Canadian dollar versus the U.S. dollar, our foreign currency translation resulted in a gain of \$0.7 million which we recorded as a increase in accumulated other comprehensive income. For the year ended December 31, 2016, due to the strengthening of the U.S. dollar versus the GBP, our foreign currency translation resulted in a loss of \$1.9 million, which we recorded as a decrease in accumulated other comprehensive loss.

As a consequence, gross profit, operating results, profitability and cash flows are impacted by relative changes in the value of the Canadian dollar and GBP. We have not repatriated earnings from our foreign subsidiaries, but have elected to invest in new business opportunities there. See Note 8, "Income Taxes" to our consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. We do not hedge our exposure to foreign currency exchange risk.

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## Item 8. Financial Statements and Supplementary Data

## AMERESCO, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31,	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$24,262	\$20,607
Restricted cash	15,751	12,299
Accounts receivable, net	85,121	85,354
Accounts receivable retainage, net	17,484	17,465
Costs and estimated earnings in excess of billings	104,852	56,914
Inventory, net	8,139	12,104
Prepaid expenses and other current assets	14,037	11,732
Income tax receivable	6,053	406
Project development costs	11,379	9,180
Total current assets	287,078	226,061
Federal ESPC receivable	248,917	158,209
Property and equipment, net	5,303	5,018
Energy assets, net	356,443	319,758
Goodwill	56,135	57,976
Intangible assets, net	2,440	3,931
Other assets	27,635	26,328
Total assets	\$983,951	\$797,281
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portions of long-term debt and capital lease liabilities	\$22,375	\$19,292
Accounts payable	135,881	126,583
Accrued expenses and other current liabilities	23,260	22,763
Billings in excess of cost and estimated earnings	19,871	21,189
Income taxes payable	755	775
Total current liabilities	202,142	190,602
Long-term debt and capital lease liabilities, less current portions and net of deferred financing fees	173,237	140,593
Federal ESPC liabilities	235,088	133,003
Deferred income taxes, net	584	9,037
Deferred grant income	7,188	7,739
Other liabilities	18,754	15,154
Commitments and contingencies (Note 13)		
Redeemable non-controlling interests	10,338	6,847
The accompanying notes are an integral part of these consolidated financial statements.		



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## AMERESCO, INC.

## CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share amounts)

	December 31,	
	2017	2016
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2017 and 2016	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 29,406,315 shares issued and 27,533,049 shares outstanding at December 31, 2017, 29,005,284 shares issued and 27,706,866 shares outstanding at December 31, 2016	3	3
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at December 31, 2017 and 2016	2	2
Additional paid-in capital	116,196	112,926
Retained earnings	235,844	194,353
Accumulated other comprehensive loss, net	(5,626 )	(6,591 )
Less - treasury stock, at cost, 1,873,266 shares at December 31, 2017, and 1,298,418 shares at December 31, 2016	(9,799 )	(6,387 )
Total stockholders' equity	336,620	294,306
Total liabilities, redeemable non-controlling interests and stockholders' equity	\$983,951	\$797,281
The accompanying notes are an integral part of these consolidated financial statements.		

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

	Year Ended December 31,		
	2017	2016	2015
Revenues	\$717,152	\$651,227	\$630,832
Cost of revenues	572,994	516,883	513,768
Gross profit	144,158	134,344	117,064
Selling, general and administrative expenses	107,570	110,568	110,007
Operating income	36,588	23,776	7,057
Other expenses, net (Note 15)	7,871	7,409	6,765
Income before (benefit) provision for income taxes	28,717	16,367	292
Income tax (benefit) provision	(4,791 )	4,370	4,976
Net income (loss)	33,508	11,997	(4,684 )
Net loss attributable to redeemable non-controlling interest	3,983	35	5,528
Net income attributable to common shareholders	\$37,491	\$12,032	\$844
Net income per share attributable to common shareholders:			
Basic	\$0.82	\$0.26	\$0.02
Diluted	\$0.82	\$0.26	\$0.02
Weighted average common shares outstanding:			
Basic	45,509	46,409	46,494
Diluted	45,748	46,493	47,665

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

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## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income (loss)	\$33,508	\$11,997	\$(4,684)
Other comprehensive income (loss):			
Unrealized gain (loss) from interest rate hedges, net of tax effect of \$(35), \$(52) and \$390, respectively	310	506	(230 )
Foreign currency translation adjustment	655	(1,869 )	(2,378 )
Total other comprehensive income (loss)	965	(1,363 )	(2,608 )
Comprehensive income (loss)	34,473	10,634	(7,292 )
Comprehensive loss attributable to redeemable non-controlling interest	3,983	35	5,528
Comprehensive income (loss) attributable to common shareholders	\$38,456	\$10,669	\$(1,764)

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

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## AMERESCO, INC.

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

(in thousands, except share amounts)

	Redeemable		Class B		Additional			Accumulated		Non-controlling	Equity	
	Non-controlling	Class A Common Stock	Class B Common Stock	Class B Common Stock	Paid-in	Retained	Treasury Stock	Other	Comprehensive			
	Interests	Shares	Amount	Shares	Amount	Earnings	Shares	Amount	Loss	Interests	Equity	
Balance, December 31, 2014	\$—	28,351,792	\$ 3	18,000,000	\$ 2	\$ 107,445	\$ 181,477	—	\$—	\$(2,620)	\$(1)	\$286,300
Exercise of stock options, net	—	332,600	—	—	—	1,153	—	—	—	—	—	1,153
Stock-based compensation expense, including excess tax benefits of \$(50)	—	—	—	—	—	1,830	—	—	—	—	—	1,830
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	—	—	(230)	—	—	(230)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(2,378)	—	—	(2,378)
Non-controlling interest	—	—	—	—	—	(117)	—	—	—	1	—	(116)
Contributions from redeemable non-controlling interests	6,018	—	—	—	—	—	—	—	—	—	—	—
Net (loss) income	(5,528)	—	—	—	—	—	844	—	—	—	—	844
Balance, December 31, 2015	490	28,684,392	3	18,000,000	2	110,311	182,321	—	—	(5,228)	—	287,400
Exercise of stock options, net	—	320,892	—	—	—	1,054	—	—	—	—	—	1,054
Stock-based compensation	—	—	—	—	—	1,561	—	—	—	—	—	1,561

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expense, including excess tax benefits of \$99												
Open market purchase of common shares	—	(1,298,418 )	—	—	—	—	—	1,298,418	(6,387 )	—	—	(6,387 )
Unrealized gain from interest rate hedge, net	—	—	—	—	—	—	—	—	—	506	—	506
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(1,869 )	—	(1,869 )
Contributions from redeemable non-controlling interests	6,392	—	—	—	—	—	—	—	—	—	—	—
Net (loss) income	(35 )	—	—	—	—	12,032	—	—	—	—	—	12,032
Balance, December 31, 2016	6,847	27,706,866	3	18,000,000	2	112,926	194,353	1,298,418	(6,387 )	(6,591 )	—	294,300
Cumulative impact from the adoption of ASU No. 2016-09 (Note 2)	—	—	—	—	—	—	4,000	—	—	—	—	4,000
Exercise of stock options, net	—	401,031	—	—	—	1,977	—	—	—	—	—	1,977
Stock-based compensation expense	—	—	—	—	—	1,293	—	—	—	—	—	1,293
Open market purchase of common shares	—	(574,848 )	—	—	—	—	—	574,848	(3,412 )	—	—	(3,412 )
Unrealized gain from interest rate hedge, net	—	—	—	—	—	—	—	—	—	310	—	310
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	655	—	655
Contributions from redeemable non-controlling interests	7,762	—	—	—	—	—	—	—	—	—	—	—

Distributions to redeemable non-controlling interests, net	(288 )	—	—	—	—	—	—	—	—	—
Net (loss) income	(3,983 )	—	—	—	37,491	—	—	—	—	37,491
Balance, December 31, 2017	\$10,338	27,533,049	\$3 18,000,000	\$2 \$116,196	\$235,844	1,873,266	\$(9,799)	\$(5,626)	\$—	\$336,6

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

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

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income (loss)	\$33,508	11,997	\$(4,684 )
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation of energy assets	21,648	19,377	16,911
Depreciation of property and equipment	2,394	3,020	3,263
Amortization of deferred financing fees	1,620	1,503	1,139
Amortization of intangible assets	1,451	2,358	4,150
Provision for bad debts	77	5,392	4,102
Gain on sale of assets	(103 )	—	(17 )
Unrealized gain on ineffectiveness of interest rate swaps	(271 )	(279 )	(368 )
Stock-based compensation expense	1,293	1,462	1,769
Deferred income taxes	(4,527 )	2,867	4,086
Excess tax benefits from stock-based compensation arrangements	—	(99 )	50
Unrealized foreign exchange (gain) loss	(1,406 )	167	2,083
Changes in operating assets and liabilities:			
Restricted cash	(818 )	(5,423 )	3,108
Accounts receivable	1,870	(12,002 )	(4,472 )
Accounts receivable retainage	1,279	3,875	(3,825 )
Federal ESPC receivable	(157,538 )	(116,753 )	(73,243 )
Inventory, net	3,966	1,118	(4,327 )
Costs and estimated earnings in excess of billings	(46,730 )	31,170	(22,904 )
Prepaid expenses and other current assets	(2,471 )	(98 )	(3,369 )
Project development costs	(3,007 )	4,162	(4,581 )
Other assets	(60 )	(525 )	(4,083 )
Accounts payable, accrued expenses and other current liabilities	19,652	(2,798 )	26,273
Billings in excess of cost and estimated earnings	(2,168 )	(6,974 )	10,674
Other liabilities	(540 )	(3,578 )	(2,444 )
Income taxes payable	(5,678 )	1,988	1,171
Cash flows from operating activities	(136,559 )	(58,073 )	(49,538 )
Cash flows from investing activities:			
Purchases of property and equipment	(2,851 )	(2,807 )	(1,343 )
Purchases of energy assets	(85,559 )	(73,234 )	(51,340 )
Proceeds from sale of assets of a business	2,777	—	—
Proceeds from sales of assets	—	—	854
Acquisitions, net of cash received	(2,409 )	(3,575 )	—
Cash flows from investing activities	\$(88,042 )	\$(79,616 )	\$(51,829 )

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

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## AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Cash flows from financing activities:			
Excess tax benefits from stock-based compensation arrangements	\$—	\$99	\$(50 )
Payments of financing fees	(2,877 )	(1,908 )	(2,748 )
Proceeds from exercises of options	1,977	1,054	1,153
Repurchase of common stock	(3,412 )	(6,387 )	—
Proceeds from senior secured credit facility, net	12,547	3,822	6,300
Proceeds from long-term debt financings	48,483	38,004	17,747
Proceeds from Federal ESPC projects	165,013	90,039	77,971
Proceeds from Federal ESPC energy assets	3,993	—	—
Proceeds from sale-leaseback financings	51,204	17,045	12,506
Non-controlling interest	—	—	(116 )
Proceeds from investment by redeemable non-controlling interests, net	7,473	6,392	6,018
Restricted cash	(2,149 )	3,155	(5,684 )
Payments on long-term debt	(54,164 )	(14,014 )	(12,392 )
Cash flows from financing activities	228,088	137,301	100,705
Effect of exchange rate changes on cash	168	(650 )	(1,455 )
Net increase (decrease) in cash and cash equivalents	3,655	(1,038 )	(2,117 )
Cash and cash equivalents, beginning of year	20,607	21,645	23,762
Cash and cash equivalents, end of year	\$24,262	\$20,607	\$21,645
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$11,675	\$7,220	\$5,537
Cash paid for income taxes	\$5,782	\$3,475	\$1,437
Non-cash Federal ESPC settlement	\$66,921	\$79,075	\$26,606
Accrued purchases of energy assets	\$7,335	\$19,506	\$5,065
The accompanying notes are an integral part of these consolidated financial statements.			



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AMERESCO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries in which the Company has a controlling financial interest and two 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 consolidated financial statements relate to management’s estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, realization of project development costs, fair value of derivative financial instruments, accounting for business acquisitions, stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.

The Company is self-insured for employee health insurance. The maximum exposure in fiscal year 2017 under the plan was \$100 per covered participant, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported claims, is determined by management and reflected in the Company’s consolidated balance sheets in accrued expenses and other current liabilities. The liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company’s estimated accrual for this liability could be different than its ultimate obligation if variables such as the frequency or amount of future claims differ significantly from management’s assumptions. 5

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 16.

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AMERESCO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(in thousands, except share and per share amounts)

**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 one inputs per the fair value hierarchy as defined in Note 16.

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 December 31, 2017 and 2016, the Company classified the non-current portion of restricted cash of \$20,092 and \$19,920, respectively, in other assets on its consolidated balance sheets.

**Accounts Receivable**

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

Changes in the allowance for doubtful accounts are as follows:

	Year Ended December 31,		
	2017	2016	2015
Allowance for doubtful accounts, beginning of period	\$7,836	\$3,729	\$2,851
Charges to costs and expenses	81	4,332	1,451
Account write-offs and other	(4,602 )	(225 )	(573 )
Allowance for doubtful accounts, end of period	\$3,315	\$7,836	\$3,729

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. In addition, the Company recorded a \$476 charge to write-off costs and estimated earnings in excess of billings and a \$325 charge for project costs incurred during the first quarter of 2016. During 2017 a settlement was reached with the customer who declared bankruptcy, and the Company has no additional exposure for the remaining receivables. During the year ended December 31, 2016, the Company also reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts. This reserve included \$1,655 for doubtful accounts in accounts receivable, net and \$279 reserved against accounts receivable retainage, net.

**Accounts Receivable Retainage**

Accounts receivable retainage represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from 5% to 10% of the total invoice. The Company classifies as a current asset those retainages that are expected to be billed in the next twelve months. During the year ended December 31, 2015, based upon an evaluation by management, the Company recorded a reserve totaling \$1,282 against the accounts receivable retainage balance for amounts determined to be potentially uncollectible. For the year ended December 31, 2016, the Company recorded an additional reserve of \$279 against the remaining accounts receivable retainage, net balance. As of December 31, 2017 and December 31, 2016, \$0 and \$887, respectively, was recorded by the Company as a reserve for accounts receivable retainage for amounts determined to be potentially uncollectible.

**Inventory**

Inventories, which consist primarily of PV solar panels, batteries and related accessories, are stated at the lower of cost (“first-in, first-out” method) or net realizable value (determined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation). Provisions have been made to reduce the carrying value of inventory to the net realizable value.

Prepaid Expenses

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

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(in thousands, except share and per share amounts)

**Federal ESPC Receivable**

Federal ESPC receivable represents the amount to be paid by various federal government agencies for work performed and earned by the Company under specific ESPCs. The Company assigns certain of its rights to receive those payments to third-party investors that provide construction and permanent financing for such contracts. Upon completion and acceptance of the project by the government, typically within 24 months of construction commencement, the assigned ESPC receivable from the government and corresponding ESPC liability are eliminated from the Company's 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 \$2,355 and \$1,524 were included in other long-term assets as at December 31, 2017 and 2016, 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. The amount of interest capitalized for the years ended December 31, 2017, 2016 and 2015 was \$4,256, \$1,253 and \$941, 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.

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.

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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 years ended December 31, 2017, 2016 and 2015. No further Section 1603 grant payments are expected to be received as the program has expired.

For tax purposes, the Section 1603 payments are not included in federal and certain state taxable income and the basis of the property is reduced by 50% of the payment received. Deferred grant income of \$7,188 and \$7,739 in the accompanying consolidated balance sheets at December 31, 2017 and 2016, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

The Company has historically received cash rebates from utility companies, which were accounted for as reductions in the book value of the related energy assets. The rebates were one-time payments based on the cost and efficiency of the installed units, and are earned upon installation and inspection by the utility. The payments are not related to, or subject to adjustment based on, future operating performance. The rebates were payable from the utility to the Company and are applied against the cost of construction, thereby reducing the book value of the corresponding energy assets and have been treated as an investing activity in the accompanying consolidated statements of cash flows. No rebates were received during the years ended December 31, 2017, 2016 and 2015.

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 7, 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 31st) 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



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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.

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 Notes 3 and 4 for additional disclosures.

**Other Assets**

Other assets consist primarily of notes and contracts receivable due to the Company from various customers and non-current restricted cash. Other assets also include the non-current portion of project development costs, accounts receivable retainages, sale-leaseback deferred loss and deferred contract costs. Other assets also include the fair value of derivatives.

**Asset Retirement Obligations**

The Company recognizes a liability for the fair value of required asset retirement obligations (“AROs”) when such obligations are incurred. The liability is estimated 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 December 31, 2017 and 2016 the Company had no ARO liabilities recorded.

**Federal ESPC Liabilities**

Federal ESPC liabilities represent the advances received from third-party investors under agreements to finance certain ESPC projects with various federal government agencies. Upon completion and acceptance of the project by the government, typically within 24 months of construction commencement, the ESPC receivable from the government and corresponding ESPC liability is eliminated from the Company’s consolidated balance sheet. Until recourse to the Company ceases for the ESPC receivables transferred to the investor, upon final acceptance of the work by the government customer, the Company remains the primary obligor for financing received.

**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 year ended December 31, 2017. See below for a summary of solar PV project sales by fiscal year:

Year Ended	# Solar PV Projects Sold (actual #'s)	Sale Price	Deferred Gain Recorded	Deferred Loss Recorded	Capital Lease Asset/Liability Recorded	Initial Lease Term (years)	Minimum Lease Payment	Maximum Lease Payment
Year-ended December 31, 2015	3	\$ 12,506	\$ 933	\$ 924	\$ 6,810	20	\$ 7	\$ 348
	6	\$ 17,045	\$ 906	\$ 145	\$ 8,830	20-25	\$ 2	\$ 397

Year-ended  
December 31, 2016

Year-ended  
December 31, 2017 <sup>13</sup>                      \$51,204 \$ 4,625    \$ 1,204    \$ 22,934    10-20                      \$ 4    \$ 510

As part of the agreement, the Company is a party to a master lease agreement that provides for the sale of solar PV projects to a third-party investor and the simultaneous leaseback of the projects, which the Company then operates and maintains,

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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 \$(79) and \$(24) of net gains for the year ended December 31, 2017 and December 31, 2016, respectively.

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

	December 31, 2017	December 31, 2016
Capital lease assets, net	\$ 36,676	\$ 14,896
Deferred loss, short-term, net	118	53
Deferred loss, long-term, net	2,054	956
Total deferred loss	\$ 2,172	\$ 1,009
Capital lease liabilities, short-term	4,157	2,185
Capital lease liabilities, long-term	30,712	12,462
Total capital lease liabilities	\$ 34,869	\$ 14,647
Deferred gain, short-term, net	338	89
Deferred gain, long-term, net	5,835	1,632
Total deferred gain	\$ 6,173	\$ 1,721

**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 17 for additional disclosures.

**Revenue Recognition**

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

Revenue from the installation or construction of projects is recognized on a percentage-of-completion basis. The percentage-of-completion for each project is determined on an actual cost-to-estimated final cost basis. Maintenance revenue is

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recognized as related services are performed. In accordance with industry practice, the Company includes in current assets and liabilities the amounts of receivables related to construction projects realizable and payable over a period in excess of one year. The revenue associated with contract change orders is recognized only when the authorization for the change order has been properly executed and the work has been performed.

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

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

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

The Company recognizes revenues from the sale and delivery of products, including the output from renewable energy plants, when produced and delivered to the customer, in accordance with specific contract terms, provided that persuasive evidence of an arrangement exists, the Company's price to the customer is fixed or determinable and collectability is reasonably assured. The Company has agreements with third parties to sell power generated by certain of their energy assets under long term power purchase agreements. The Company has determined that certain of their power purchase agreements contain a lease component. The Company recognized \$3,409, \$3,162 and \$2,198 of operating lease revenue under these agreements during the years ended December 31, 2017, 2016 and 2015, respectively.

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

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

**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.

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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 noncurrent on its consolidated balance sheet as of December 31, 2017 and 2016, respectively.

See Note 8 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 year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the year. Translation adjustments are accumulated as a separate component of stockholders' equity. Foreign currency translation gains and losses are reported in the consolidated statements of comprehensive income (loss). Foreign currency transaction gains and losses are reported in the consolidated statements of income (loss).

Financial Instruments

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

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

See below for fair value measurements of long-term debt. See Note 16 for fair value measurement of interest rate swaps.

Stock-Based Compensation Expense

Stock-based compensation expense results from the issuance of shares of restricted common stock and grants of stock options to employees, directors, outside consultants and others. The Company recognizes the costs associated with restricted stock and option grants using the fair value recognition provisions of 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. Beginning in the year ended December 31, 2016, the Company uses historical volatility as the expected volatility assumption required in the Black-Scholes model. Prior to the year ended December 31, 2016, because there was no public market for the Company's common stock prior to the Company's initial public



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(in thousands, except share and per share amounts)

offering, management lacked company-specific historical and implied volatility information. Therefore, estimates of expected stock volatility were based on that of publicly traded peer companies.

The Company is required to recognize compensation expense for only the portion of options that are expected to vest. If there are any modifications or cancellations of the underlying invested securities or the terms of the stock option, it may be necessary to accelerate, increase or cancel any remaining unamortized stock-based compensation expense. As a result of the adoption of ASU-2016-09, no significant changes were made to the Company's accounting for forfeitures. 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.

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 years ended December 31, 2017, 2016 and 2015.

**Fair Value Measurements**

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

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, interest rate swaps, accounts payable, accrued expenses, capital lease assets and liabilities and short-term and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of December 31, 2017, the carrying value of the Company's long-term debt exceeds its fair value of \$160,108 by approximately \$490. 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 16.

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

See Note 16 for additional information related to fair value measurements.

**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 year ended December 31, 2017, the Company repurchased 574,848 shares of common stock in the

amount of \$3,412, including fees of \$23. During the year ended December 31, 2016, the Company repurchased 1,298,418 shares of common stock in the amount of \$6,387, including fees of \$52.

#### Derivative Financial Instruments

In the normal course of business, the Company utilizes derivatives contracts as part of its risk management strategy to manage exposure to market fluctuations in interest rates. These instruments are subject to various credit and market risks. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated.

Credit risk

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(in thousands, except share and per share amounts)

represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. The Company seeks to manage credit risk by entering into financial instrument transactions only through counterparties that the Company believes to be creditworthy.

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

During 2007, the Company entered into two interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover initial notional amounts of \$13,081 and \$3,256, each a variable rate note at fixed interest rates of 5.4% and 5.3%, respectively, and expire in March 2024 and February 2021, respectively. These interest rate swaps qualified, but were not designated, as cash flow hedges until April 1, 2010. Since April 2010, they have been designated as hedges.

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a 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. For the year ended December 31, 2013, the Company recorded an unrealized (gain) loss in earnings of \$(266), as other expenses, net in the consolidated statements of income (loss). 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.

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

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

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

inception.

In September 2015, the Company entered into a seven-year forward starting interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$20,746 variable rate note at a fixed interest rate of 2.19%, and expires in February 2023. The effective date of the interest rate swap was February 29, 2016. The underlying cash flows hedged have an initial principal balance of \$20,746 with an effective date of March 30, 2016. This interest rate swap has been designated as a hedge since inception.

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

In June 2017, the Company entered into a 10-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$14,100 variable rate note at a fixed interest rate of 2.29%, with an effective date of June 27, 2017, and expires in December 2027. The underlying cash flows hedged have an initial principal balance of \$14,100 with an effective date of June 22, 2017. This interest rate swap has been designated as a hedge since inception. At December 31, 2017 this hedge was deemed to be operating ineffectively which resulted in the Company recognized an immaterial amount of fair value loss in the consolidated statement of income (loss) during the year ended December 31, 2017.

See Notes 15, 16 and 17 for additional information on the Company's derivative instruments.

**Earnings Per Share**

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

	Year Ended December 31,		
	2017	2016	2015
Net income attributable to common shareholders	\$37,491	\$ 12,032	\$ 844
Basic weighted-average shares outstanding	45,509,000	46,409,000	46,494,000
Effect of dilutive securities:			
Stock options	239,000	84,000	1,171,000
Diluted weighted-average shares outstanding	45,748,000	46,493,000	47,665,000

For the years ended December 31, 2017, 2016 and 2015, 2,560,353, 3,530,220 and 1,767,778 shares of common stock, respectively, related to stock options were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

**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 9 for additional disclosures.

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## Redeemable Non-Controlling Interests

In September 2015, the Company formed an investment fund with a third party investor which granted the investor ownership interests in the net assets of certain of the Company's renewable energy project subsidiaries. In June 2017, the Company formed a second investment fund with a third party investor which granted the investor ownership interests in the net assets of certain of the Company's renewable energy project subsidiaries. The Company entered into these agreements in order 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 sheets. The Company has determined that the provisions in the contractual arrangements represent substantive profit-sharing arrangements. The Company has further determined that the appropriate methodology for attributing income and loss to the redeemable non-controlling interests each period is a balance sheet approach referred to as the hypothetical liquidation at book value ("HLBV") method. Under the HLBV method, the amounts of income and loss attributed to the redeemable non-controlling interests in the consolidated statements of income (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 Notes 9 and 10 for additional disclosures.

## Recent Accounting Pronouncements

## Revenue from Contracts with Customers

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), which will change the way the Company recognizes revenue and costs related to customer contracts and significantly expand the disclosure requirements for revenue arrangements. The new standard is effective for annual reporting periods beginning after December 15, 2017. The standard allows for two transition methods - retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption (modified retrospective method).

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, whereby ASC 606 would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in connection with the new standard and the Company's current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Accordingly, the Company has elected to retroactively adjust only those contracts that do not meet the definition of a complete

contract at the date of the initial application. As ASC 606 supersedes substantially all existing revenue guidance affecting the Company under current GAAP, it will impact revenue and cost recognition across all of the Company's business segments, as well as its business processes and information technology systems.

The Company commenced the evaluation of the impact of ASC 606 in mid-2016, by evaluating its impact on existing contracts for each of the lines of business at each of the business segments. With this baseline understanding, the Company

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developed a project plan to evaluate numerous contracts across business segments, develop processes and tools to dual report financial results under both current GAAP and ASC 606 and assess the internal control structure in order to adopt ASC 606 on January 1, 2018. The Company has substantially completed the evaluation and implementation of system updates and changes to internal controls over financial reporting to allow timely compilation of the information needed to account for transactions under this new guidance and to adjust the consolidated financial statements. The Company has periodically briefed the Audit Committee on progress made towards adoption. During the fourth quarter of 2017 the Company finalized its assessments over the impact that these new standards will have on the Company's consolidated results of operations, financial position and disclosures. In adopting the previously mentioned ASUs, the Company expects the following significant changes in accounting principles:

Timing of revenue recognition for uninstalled materials - The Company currently recognizes the majority of revenue from the installation or construction of projects using the percentage-of-completion method of accounting, whereby revenue is recognized as the Company progresses on the contract. The percentage-of-completion for each project is determined on an actual cost-to-estimated final cost basis. Under ASC 606, revenue will be recognized as (i) the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). The cost of uninstalled materials or equipment will generally be excluded from the Company's measure of progress, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress, unless the materials or equipment are delivered and expected to be installed by the Company in 90 days or less.

Deferral of incremental direct costs to obtaining a contract with a customer - The Company currently records certain incremental compensation (i.e., sales commissions) payable to its sales force as an expense when earned which is included in the measure of progress towards completion. Under ASC 606, the Company will continue to (ii) capitalize these costs and subsequently amortize the capitalized costs over a period of time that is consistent with the transfer of the related good or service to the customer. Capitalized costs, net of accumulated amortization, will be included in "Prepaid expenses and other current assets" and "Other assets" on its consolidated balance sheets. If the incremental cost incurred exceeds payments made, the accrued cost will be included in "Accrued expenses and other liabilities".

Timing of revenue recognition from renewable energy incentives - Under current accounting policies, the Company recognizes revenue for SRECs and other renewable energy incentives when generated if the Company (iii) has a signed contract to sell those SRECs or renewable energy incentives to a third party (thus making the sale price fixed and determinable). Under ASC 606, the Company will recognize SREC and other renewable energy incentive revenues when the rights are transferred to a third party, which can be up to six months after generation.

Revenue of approximately \$9,100, that is reflected in the consolidated statement of income (loss) in 2017, will be recorded as a reduction in equity as an adjustment under the modified retrospective method. Additionally costs of approximately \$2,700, that are reflected in the consolidate statement of income (loss) in 2017, will be recorded as an increase in equity in connection with the modified retrospective adjustment. In connection with the change in accounting treatment the Company estimates that it will record a net deferred tax asset of approximately \$1,700. This is the result of timing differences in the recognition of revenue items and their associated costs for financial statement purposes versus the Tax Code. The cumulative impact of adopting the new accounting standard will result in a decrease in stockholders' equity, net of tax, of approximately \$4,700.

Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350), which eliminates the requirement to compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill (commonly referred to as Step 2) from the goodwill impairment test. The new standard does not change how a goodwill impairment is identified. The Company will continue to perform quantitative and qualitative goodwill impairment test by comparing the fair value of each reporting unit to its carrying amount, but if the Company is required to recognize a goodwill impairment charge, under the new standard the amount of the charge will be calculated by subtracting the reporting unit's fair value from its carrying amount. Under the prior standard, if the Company were required to recognize a goodwill impairment charge, Step 2 required to calculate the implied value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination and the amount of the charge was calculated by subtracting the reporting unit's implied fair value of goodwill from its actual goodwill balance. The new standard is effective

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for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, and should be applied prospectively from the date of adoption. The Company elected to adopt the new standard for future goodwill impairment tests at the beginning of the fourth quarter of 2017, because it significantly simplifies the evaluation of goodwill for impairment. See Note 3 to the consolidated financial statements for further details.

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 Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

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 is currently evaluating the impact of ASU 2017-09, but does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting. The guidance in this ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the consolidated statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the consolidated statement of income (loss) and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. The Company adopted this guidance in the first quarter of fiscal 2017, and as a result of this adoption recorded a \$4,000 deferred tax asset and corresponding credit to retained earnings for excess tax benefits that had not previously been recognized because the related tax deductions had not reduced taxes payable. The Company has not changed its accounting policy in regards to forfeitures as a result of the adoption of this guidance. The Company's adoption of the new standard also resulted in the prospective classification of excess tax benefits as cash flows from operating activities in the same manner as other cash flows related to income taxes within the consolidated statements of cash flows. Based on the prospective method of adoption chosen, the classification of excess tax benefits within the consolidated statements of cash flows for prior periods presented has not been adjusted

to reflect the change.

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 is currently evaluating the impact of ASU 2016-15, but does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

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

**3. BUSINESS ACQUISITIONS AND RELATED TRANSACTIONS**

The Company accounts for acquisitions using the acquisition method in accordance with ASC 805, Business Combinations. The purchase price for each has been allocated to the assets based on their estimated fair values at the date of each acquisition 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 16, 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 4 for additional information.

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.

In December 2016, the Company acquired a solar PV project currently under construction as well as an associated construction loan agreement with a bank for use in providing non-recourse financing for this acquired solar PV project currently under construction. The Company paid \$3,575 to acquire the asset under construction, and assumed \$9,503 of associated non-recourse financing.

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:

	2017	2016	2015
Prepaid expenses and other current assets	256	263	—
Property and equipment and energy assets	7,788	12,815	—
Purchase price	\$8,044	\$13,078	\$ —
Total, net of cash received	\$8,044	\$13,078	\$ —
Debt assumed	\$5,635	\$9,503	\$ —
Total fair value of consideration	\$2,409	\$3,575	\$ —

The results of the acquired companies 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.

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## 4. GOODWILL AND INTANGIBLE ASSETS

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

	U.S. Regions	U.S. Federal	Canada	Other	Total
Balance, December 31, 2015	\$ 24,759	\$ 3,375	\$ 3,162	\$ 27,789	\$ 59,085
Currency effects	—	—	100	(1,209 )	(1,109 )
Balance, December 31, 2016	24,759	3,375	3,262	26,580	57,976
Sale of assets of a business	—	—	—	(2,639 )	(2,639 )
Currency effects	—	—	232	566	798
Balance, December 31, 2017	\$ 24,759	\$ 3,375	\$ 3,494	\$ 24,507	\$ 56,135
Accumulated Goodwill Impairment Balance, December 31, 2016	\$ —	\$ —	\$ (1,016)	\$ —	\$ (1,016)
Accumulated Goodwill Impairment Balance, December 31, 2017	\$ —	\$ —	\$ (1,016)	\$ —	\$ (1,016)

In accordance with ASC 350, goodwill was tested for impairment as of December 31, 2017, 2016 and 2015 at the reporting unit level under the income approach which uses, in part, a discounted cash flow method and a peer-based, risk-adjusted weighted average cost of capital. No instances of impairment were identified in the December 31, 2017, 2016 or 2015 assessments. Based on the Company's goodwill impairment assessment, all of its reporting units with goodwill had estimated fair values as of December 31, 2017 that exceeded their carrying values by at least 20%.

However, during the course of the valuation analysis it was determined that although the fair value of the Company's Canada reporting unit exceeded the carrying amount of this reporting unit the carrying value of the reporting unit was negative, as of December 31, 2017. The Canada reporting unit had goodwill of \$3,494 as of December 31, 2017. Based on the Company's goodwill impairment assessment, all of its reporting units with goodwill had estimated fair values as of December 31, 2016 that exceeded their carrying values by at least 13%, with the exception of the Southwest reporting unit, a member of the U.S. Regions segment, which had a fair value that exceeded its carrying value by 9%. This reporting unit had goodwill of \$16,800 at December 31, 2016. During the course of the valuation analysis it was determined that although the fair value of the Company's Canada reporting unit exceeded the carrying amount of this reporting unit the carrying value of the Canada reporting unit was negative for the year ended December 31, 2016. This determination, combined with qualitative considerations, prompted the performance of the Step 2 test which had previously been prescribed under ASC 350, recognizing and measuring the amount of the impairment loss, if any. Step 2 of the goodwill impairment test compared the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. Under the Step 2 test, the fair value of this goodwill can only be measured as a residual after the entity assigns the fair value of the reporting unit to all the assets and liabilities of that reporting unit, including any unrecognized intangible assets as if the reporting unit had been acquired in a business combination. The implied fair value of the goodwill of the Canada reporting unit exceeded the carrying value of that goodwill and as a result, no impairment of goodwill had been identified.

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

	As of	
	December 31,	
	2017	2016
Gross Carrying Amount		
Customer contracts	\$7,786	\$7,594
Customer relationships	11,863	11,652
Non-compete agreements	3,052	3,203
Technology	2,751	2,716
Trade names	546	542
	25,998	25,707
Accumulated Amortization		
Customer contracts	7,786	7,566
Customer relationships	9,557	8,048
Non-compete agreements	3,048	3,158
Technology	2,642	2,485
Trade names	525	519
	23,558	21,776
Intangible assets, net	\$2,440	\$3,931

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). All customer contracts intangible assets were fully amortized as of December 31, 2017. Amortization expense 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).

Customer contracts are amortized ratably over the period of the acquired customer contracts ranging in periods from approximately one to five years. All other intangible assets are amortized over periods ranging from approximately four to fifteen years, as defined by the nature of the respective intangible asset.

Separable intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. The Company annually assesses whether a change in the life over which the Company's assets are amortized is necessary or more frequently if events or circumstances warrant. No changes to useful lives were made during the years ended December 31, 2017, 2016 and 2015.

Amortization expense for the years ended December 31, 2017, 2016 and 2015 is as follows:

	Year Ended December		
	31,		
	2017	2016	2015
Customer contracts	\$31	\$184	\$932
Customer relationships	1,244	1,809	2,139
Non-compete agreements	42	116	494
Technology	128	238	528
Trade names	6	11	57
Total intangible amortization expense	\$1,451	\$2,358	\$4,150

Estimated amortization expense for existing intangible assets for the next five succeeding fiscal years is as follows:





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(in thousands, except share and per share amounts)

Estimated  
Amortization  
Included in  
Selling,  
General and  
Administrative  
Expenses  
2018\$ 992  
2019716  
2020515  
2021193  
202214

**5. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	December 31,	
	2017	2016
Furniture and office equipment	\$5,846	\$5,429
Computer equipment and software costs	21,457	19,475
Leasehold improvements	3,255	2,819
Automobiles	1,181	1,156
Land	1,498	1,379
Property and equipment, gross	33,237	30,258
Less - accumulated depreciation	(27,934)	(25,240)
Property and equipment, net	\$5,303	\$5,018

Depreciation expense on property and equipment for the years ended December 31, 2017, 2016 and 2015 was \$2,394, \$3,020 and \$3,263, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of income (loss).

**6. ENERGY ASSETS**

Energy assets consist of the following:

	December 31,	
	2017	2016
Energy assets	\$488,818	\$431,361
Less - accumulated depreciation and amortization	(132,375 )	(111,603 )
Energy assets, net	\$356,443	\$319,758

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(in thousands, except share and per share amounts)

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

	December 31,	
	2017	2016
Capital lease assets	\$38,725	\$15,640
Less - accumulated depreciation and amortization	(2,049 )	(744 )
Capital lease assets, net	\$36,676	\$14,896

Depreciation and amortization expense on the above energy assets, net of deferred grant amortization, for the years ended December 31, 2017, 2016 and 2015 was \$21,648, \$19,377 and \$16,911, respectively, and is included in cost of revenues in the accompanying consolidated statements of income (loss). Included in these depreciation and amortization expense totals are depreciation and amortization expense on capital lease assets of \$1,305, \$570 and \$174, respectively, for the years ended December 31, 2017, 2016 and 2015.

**7. LONG-TERM DEBT**

Long-term debt comprised the following:

	December 31,	
	2017	2016
Senior secured credit facility, due June 2020, interest at varying rates monthly in arrears	\$49,986	\$43,420
6.345% term loan payable in semi-annual installments through February 2021	1,220	1,482
6.345% term loan payable in semi-annual installments through June 2024	8,295	9,096
Variable rate construction to term loan payable in quarterly installments through December 2024	8,757	10,139
6.500% term loan payable in monthly installments through October 2017	—	110
7.250% term loan payable in quarterly installments through March 2021	2,218	2,651
6.110% term loan payable in monthly installments through June 2028	4,551	4,591
Variable rate construction to term loan payable in quarterly installments through March 2020	32,711	35,679
Variable rate construction to term loan payable in semi-annual installments through February 2023	18,346	19,398
4.950% term loan payable in quarterly installments through July 2031	4,605	4,549
13.000% construction loan payable, due May 2017	—	9,503
8.750% construction loan payable, due February 2018	—	3,140
5.000% construction to term loan payable in quarterly installments through March 2028	4,258	—
4.500% construction to term loan payable in monthly installments through April 2027	13,325	—
5.610% term loan payable in quarterly installments through February 2034	3,128	—
Variable rate term loan payable in semi-annual installments through December 2027	14,034	—
4.250% construction to term loan payable in monthly installments through October 2038	—	—
Variable rate construction loan payable, due June 2018	1,721	7,008
Capital leases	35,013	14,647
	202,168	165,413
Less - current maturities	22,375	19,292
Less - deferred financing fees	6,556	5,528
Long-term debt	\$173,237	\$140,593

Aggregate maturities of long-term debt for the years ended December 31, are as follows:



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2018	\$22,375
2019	22,172
2020	78,944
2021	10,990
2022	9,933
Thereafter	58,451
Debt Discount (697 )	
	\$202,168

## Senior Secured Credit Facility - Revolver and Term Loan

On June 30, 2015, the Company entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extends the Company's existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016. The revolving credit facility and term loan mature on June 30, 2020, when all amounts will be due and payable in full. The Company expects to use the new credit facility for general corporate purposes of the Company and its subsidiaries, including permitted acquisitions, refinancing of existing indebtedness and working capital. In July 2016, the Company entered into an amendment to the third amended and restated bank credit facility that amended the requirement of the total funded debt to EBITDA ratio. In November 2016, the Company entered into an additional amendment to the third amended and restated bank credit facility that increased the amount of the term loan under the credit facility by approximately \$20,000 to an aggregate of \$30,000 and extends the maturity date of the term loan from June 30, 2018 to June 30, 2020. In June 2017, the Company entered into an additional amendment to the third amended and restated bank credit facility that increased the amount available to be drawn on the revolving credit facility from \$60,000 to \$75,000. This amendment also amended the requirement of the total funded debt to EBITDA ratio as described below.

The credit facility consists of a \$75,000 revolving credit facility and a \$30,000 term loan. The revolving credit facility may be increased by up to an additional \$25,000 at the Company's option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20,000 of the revolving credit facility may be borrowed in Canadian dollars, Euros and pounds sterling. The Company is the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of the Company's direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of the Company's and such subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries (as defined in the agreement). At December 31, 2017 and 2016, \$22,500 and \$28,500, excluding debt discounts, was outstanding under the term loan, respectively. At December 31, 2017 and 2016, \$27,580 and \$15,033, excluding debt discounts, was outstanding under the revolving credit facility, respectively. At December 31, 2017 funds of \$38,928 is available for the revolving credit facility.

The interest rate for borrowings under the credit facility is based on, at the Company's option, either (1) a base rate equal to a margin of 0.5% or 0.25%, depending on the Company's ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50% , (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on the Company's ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility. At December 31, 2017, the interest rate for borrowings under the revolving credit facility was 5.00% and the weighted average interest rate for borrowings under the term loan was 3.45%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1,500, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at the Company's option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

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

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

- a ratio of total funded debt to EBITDA of less than 2.75 to 1.0 as of the end of each fiscal quarter ending September 30, 2016 and thereafter; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

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

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

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

At December 31, 2017, the Company was in compliance with all financial and operational covenants.

**6.345% Term Loans**

On January 30, 2006, the Company entered into a master construction and term loan facility with a bank for use in providing limited recourse financing for certain of its landfill gas ("LFG") to energy projects. The total loan commitment is \$17,156, and is comprised initially of two tranches, but structured for the addition of subsequent projects that meet lender credit requirements.

The first tranche had an original balance, upon conversion to term loan, of \$3,240, and bore an interest rate of 6.345% per annum under the construction loan. The term loan bears interest at a variable rate, with interest payments due in quarterly installments with the remaining principal and unpaid interest due February 26, 2021. The interest rate at December 31, 2017 was 3.693%.

The second tranche had an original balance, upon conversion to term loan, of \$13,081 and bore an interest rate of 6.345% per annum under the construction loan. The term loan bears interest at a variable rate, with interest payments due in quarterly installments with principal and unpaid interest due June 30, 2024. The interest rate at December 31, 2017 was 3.443%.

As of December 31, 2017 and 2016, \$9,515 and \$10,578, respectively, was collectively outstanding under this facility.

In the event a payment is defaulted on, the payee has the option to accelerate payment terms and make due the remaining principal and accrued interest balance.

**Variable-Rate Construction and Term Loans Due 2024**

In February 2009, the Company entered into a construction and term loan financing agreement with a bank for use in providing limited recourse financing for certain of its LFG to energy projects. The total loan commitment under the agreement was \$37,906, and bears interest at a variable rate. Prior to and during March 2010, the Company had construction draws totaling \$27,868. During March 2010, the Company converted all of the construction loans to a single term loan balance of \$27,868. The loan bears interest at a variable rate, with interest payments due in quarterly installments with principal and unpaid interest due on December 31, 2024. The Company made an additional principal

payment of \$3,712 during the year ended December 31, 2014. As of December 31, 2017 and 2016, the outstanding balance under the term loan was \$8,757 and \$10,139, respectively. The interest rate at December 31, 2017 was 4.585%.

**6.500% Term Loan**

The Company had a term loan agreement with a finance company with a total loan amount of \$755. The note evidencing the loan bore interest at a fixed rate of 6.500% per annum. Principal and interest payments were due in monthly installments

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with the final payment being made on October 1, 2017. As of December 31, 2017 and 2016, \$0 and \$110, respectively, was outstanding under the term loan.

**7.250% Term Loan**

On March 31, 2011, the Company entered into a term loan with a bank with an original principal amount of \$5,500. The note evidencing the loan bears interest at a rate of 7.25% per annum. The remaining principal amounts are due in quarterly installments with remaining principal balances and unpaid interest due March 31, 2021. In the event a payment is defaulted on, the payee has the option to accelerate payment terms and make due the remaining principal and accrued interest balance. At December 31, 2017 and 2016, \$2,218 and \$2,651, respectively, was outstanding under the term loan.

**6.110% Construction and Term Loan**

On October 3, 2011, the Company entered into a construction and term loan with a syndication group with an original principal amount of \$7,380. The note evidencing the loan bears interest at a rate of 6.11% per annum. Monthly interest only payments were due from November 1, 2011 to June 1, 2013. The remaining principal amounts were due starting on June 1, 2013 in monthly installments with remaining principal balances and unpaid interest due June 1, 2028. At December 31, 2017 and 2016, \$4,551 and \$4,591, respectively, was outstanding under the term loan.

**Variable-Rate Construction and Term Loans Due 2020**

In October 2012, the Company entered into a credit and guaranty agreement with two banks for use in providing limited recourse financing for certain of its LFG to energy and solar PV projects. The credit and guaranty agreement provided for a \$47,234 construction-to-term loan credit facility and bears interest at a variable rate. The loans were fully converted to term loans during the year ended December 31, 2014. The term loan bears interest at a variable rate, with interest payments due in quarterly installments. The facility matures on March 30, 2020, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017 and 2016, \$32,711 and \$35,679, respectively, was outstanding under term loans. The interest rate at December 31, 2017 was 4.700%.

**Variable-Rate Construction and Term Loans Due 2023**

In September 2015, the Company entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar PV projects currently under construction. The credit and guaranty agreement provides for a \$20,746 construction-to-term loan credit facility and bears interest at a variable rate. The loans were fully converted to term loans during the year ended December 31, 2016. The term loan bears interest at a variable rate, with interest payments due in quarterly installments. The facility matures on February 28, 2023, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017 and 2016, \$18,734 and \$19,877, respectively, was outstanding under term loans, excluding debt discounts. The interest rate at December 31, 2017 was 4.193%.

**4.950% Term Loan**

On August 4, 2016, the Company entered into a term loan with two banks with an original principal amount of \$4,837. The note evidencing the loan bears interest at a rate of 4.95% per annum. The remaining principal amounts are due in quarterly installments, with remaining principal balances and unpaid interest due July 1, 2031. At December 31, 2017 and 2016, \$4,605 and \$4,616 per schedule, including debt discount, was outstanding on the term loan, respectively.

**8.750% Construction Loan**

On November 1, 2016, the Company entered into a construction loan agreement with a bank for use in providing non-recourse financing for a certain natural gas to energy project currently under construction. The construction loan agreement provided for a \$9,500 construction facility and bore interest at a rate of 8.75% per annum. The facility was scheduled to mature on February 28, 2018, and all remaining unpaid amounts outstanding under the facility were to be due at that time. This loan was fully paid off during the year ending December 31, 2017, thus at December 31, 2017, \$0 was outstanding under the construction loan. The Company had classified this debt as current as of December 31,



2016, due to the Company's intent to repay the construction loan in full prior to December 31, 2017.

Variable Rate Construction Loan Due June 30, 2018

On November 18, 2016, the Company entered into a construction loan agreement and subsequent amendment with a bank for use in providing non-recourse financing for certain solar PV projects currently under construction. The construction loan agreement provides for a \$35,000 construction facility and bears interest at a variable rate. The facility matures on June 30,

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2018, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017, \$1,721 was outstanding under the construction loan. The interest rate at December 31, 2017 was 6.75%. The Company has classified this debt as non-current as of December 31, 2016, due to the Company's intention to refinance the variable rate construction loan with a sale-leaseback transaction prior to the maturity date.

**13.000% Construction Loan**

On December 22, 2016, the Company acquired a solar PV project (see Note 3) currently under construction as well as an associated construction loan agreement with a bank for use in providing non-recourse financing for this acquired solar PV project currently under construction. The construction loan agreement provided for a \$10,694 construction facility and bore interest at a rate of 13.00% per annum. The facility matured on May 30, 2017, and all remaining unpaid amounts outstanding under the facility were paid at that time; thus at December 31, 2017 \$0 was outstanding under the construction loan. The Company did refinance the construction loan to a term loan during the three months ended June 30, 2017. This construction loan contained a subjective acceleration clause that allowed the bank to call the debt, if a material adverse change occurred. If exercised, the subjective acceleration clause provided for a 60-day notice period to repay the construction loan balance. The bank did not exercise the subjective acceleration clause during the term of the loan agreement.

**13.000% Construction Loans**

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 under construction (see Note 3). The construction loans agreements provided for construction facilities of \$3,823 and \$4,008 and both facilities bore interest at a fixed rate of 13.00%. These facilities matured on May 30, 2017 and May 26, 2017, respectively, and all remaining unpaid amounts outstanding under each respective facility were paid at those times. The Company had classified both construction loans as non-current due to the Company's intention to refinance the construction loans to term loans prior to the maturity dates. The Company did refinance the construction loans to a term loan during the year ended December 31, 2017.

**5.000% Construction to Term Loan**

In March 2017, the Company entered into a credit agreement with a bank for use in providing non-recourse financing for a certain solar PV project in operation. The credit agreement provides for a \$4,300 construction-to-term-loan credit facility and bears interest at a fixed rate of 5.50% during the construction phase and 5.00% during the term loan phase, with interest payments due monthly. The remaining principal amounts are due in quarterly installments. The construction loan automatically converts to a term loan on March 24, 2018 and matures on March 24, 2028, with all remaining unpaid amounts outstanding under the agreement will be due at that time. At December 31, 2017, \$4,258, including debt discounts, was outstanding under the construction loan.

**4.500% Construction to Term Loan**

In April 2017, the Company entered into a non-recourse construction-to-term loan agreement with a municipal corporation to finance construction costs on a certain biogas facility project in development. The construction-to-term loan agreement provides for a \$24,823 facility and bears interest at a fixed rate of 4.50% during both the construction and term loan phases, with interest payments due monthly. The remaining principal amounts are due in monthly installments. The construction loan converts to a term loan upon completion of the Biogas Facility and matures ten years after the conversion date, with all remaining unpaid amounts outstanding under the agreement due at that time. At December 31, 2017, \$13,325 was outstanding under the construction loan.

**5.610% Term Loan**

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

unpaid amounts outstanding under the credit and guaranty agreement will be due at that time. At December 31, 2017, \$3,128, including debt discounts, was outstanding under the term loan.

Variable Rate Term Loan

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In June 2017, the Company entered into a loan agreement for use in providing non-recourse financing for certain of its solar PV projects currently in operation. The loan agreement provides for a \$14,034 term loan credit facility and bears interest at a variable rate, with interest payments due in quarterly installments. The term loan matures on December 15, 2027, and all remaining unpaid amounts outstanding under the facility will be due at that time. At December 31, 2017, \$14,100, excluding debt discounts, was outstanding under the term loan. The variable interest rate for this loan at December 31, 2017 was 4.04%.

**8. INCOME TAXES**

The components of income before income taxes are as follows:

	Year Ended December 31,		
	2017	2016	2015
Domestic	\$29,792	\$19,874	\$17,860
Foreign	(1,075 )	(3,507 )	(17,568 )
Income before (benefit) provision for income taxes	\$28,717	\$16,367	\$292

The components of the (benefit) provision for income taxes are as follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	\$(1,055)	\$1,304	\$224
State	671	303	603
Foreign	161	(106 )	443
	(223 )	1,501	1,270
Deferred:			
Federal	(6,683 )	2,341	3,861
State	1,853	106	134
Foreign	262	422	(289 )
	(4,568 )	2,869	3,706
	\$(4,791)	\$4,370	\$4,976

The Company's deferred tax assets and liabilities result primarily from temporary differences between financial reporting and tax recognition of depreciation, reserves, and certain accrued liabilities.

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2017	2016
Deferred tax assets:		
Compensation accruals	\$3,042	\$4,259
Reserves	2,149	4,597
Other accruals	(193 )	732
Net operating losses	10,099	8,044
Interest rate swaps	866	1,500
Energy efficiency	22,716	14,449
Deferred revenue	815	1,351
Gross deferred income tax assets	39,494	34,932
Valuation allowance	(7,534 )	(7,344 )
Total deferred income tax assets	\$31,960	\$27,588

Deferred tax liabilities:		
Depreciation	\$(24,178)	\$(30,974)
Contract refinancing	—	(217 )
Canada	(3,156 )	(1,901 )
United Kingdom	(802 )	(697 )
Outside basis difference	(4,408 )	(2,756 )
Acquisition accounting	—	(80 )
Total deferred income tax liabilities	(32,544 )	(36,625 )
Deferred income tax liabilities, net	\$(584 )	\$(9,037 )

The Company recorded a valuation allowance in the amount of \$7,534 and \$7,344 as of December 31, 2017 and 2016, respectively, related to the following items: 1) The Company recorded a valuation allowance on a deferred tax asset relating to interest rate swaps in the amount of \$401 and \$859 as of December 31, 2017 and 2016, respectively. The deferred tax asset represents a future capital loss which can only be recognized for income tax purposes to the extent of capital gain income. Although the Company anticipates sufficient future taxable income, it is more likely than not that it will not be of the appropriate character to allow for the recognition of the future capital loss. 2) As of December 31, 2017 and 2016, the Company recorded a valuation allowance on a deferred tax asset relating to a foreign net operating loss in the amount of \$6,871 and \$6,269, respectively. It is more likely than not that the Company will not generate sufficient taxable income at the foreign subsidiary level to utilize the net operating loss. 3) The Company recorded a valuation allowance on a deferred tax asset relating to a state net operating loss of \$262 and \$216 at one of its subsidiaries as of December 31, 2017 and 2016, respectively. It is more likely than not that the Company will not generate sufficient taxable income at the subsidiary level to utilize the net operating loss. The provision for income taxes is based on the various rates set by federal and local authorities and is affected by permanent and temporary differences between financial accounting and tax reporting requirements.

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The following is a reconciliation of the effective tax rates:

	Year Ended December 31,		
	2017	2016	2015
Income before (benefit) provision for income taxes	\$28,717	\$16,367	\$292
Federal statutory tax expense	\$10,048	\$5,728	\$102
State income taxes, net of Federal benefit	1,584	678	604
Net state impact of deferred rate change	327	(110 )	55
Non deductible expenses	1,473	670	933
Impact of reserve for uncertain tax positions	42	(411 )	(1,772 )
Stock-based compensation expense	116	306	402
Energy efficiency preferences	(6,416 )	(4,130 )	(3,280 )
Foreign items and rate differential	139	516	1,556
Tax rate change	(13,948 )	—	—
Valuation allowance	424	213	4,255
Energy partnership basis adjustments	—	—	2,133
Miscellaneous	1,420	910	(12 )
	\$(4,791 )	\$4,370	\$4,976
Effective tax rate:			
Federal statutory rate expense	35.0	% 35.0	% 35.0 %
State income taxes, net of Federal benefit	5.5	% 4.1	% 206.8 %
Net state impact of deferred rate change	1.1	% (0.7 )%	18.8 %
Non deductible expenses	5.1	% 4.1	% 319.5 %
Impact of reserve for uncertain tax positions	0.1	% (2.5 )%	(606.8 )%
Stock-based compensation expense	0.4	% 1.9	% 137.7 %
Energy efficiency preferences	(22.3 )%	(25.2 )%	(1,123.3)%
Foreign items and rate differential	0.5	% 3.2	% 532.9 %
Tax rate change	(48.6 )%	—	% — %
Valuation allowance	1.5	% 1.3	% 1,457.2 %
Energy partnership basis adjustments	—	% —	% 730.5 %
Miscellaneous	4.9	% 5.5	% (4.1 )%
	(16.7 )%	26.7	% 1,704.2 %

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

	Year Ended	
	December 31,	
	2017	2016
Balance, beginning of year	\$600	\$2,200
Additions for prior year tax positions	—	—
Settlements paid to tax authorities	—	(1,310 )
Reductions of prior year tax positions	—	(290 )
Balance, end of year	\$600	\$600

At December 31, 2017 and 2016, the Company had approximately \$600 and \$600, respectively, of total gross unrecognized tax benefits.

Of the total gross unrecognized tax benefits as of December 31, 2017 and 2016, \$80 and \$20, respectively, (both net of the federal benefit on state amounts) represent the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

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At December 31, 2017 the Company had state net operating loss carryforwards of approximately \$15,700, which will expire from 2017 through 2034. Any tax benefit resulting from excess stock option deductions is recorded as an adjustment to additional paid in capital when realized. At December 31, 2017 the Company had Canadian net operating loss carryforwards of approximately \$27,200, which will expire for tax years 2016 through 2026.

The Company does not accrue U.S. tax for foreign earnings that it considers to be permanently reinvested outside the United States. Consequently, the Company has not provided any U.S. tax on the unremitted earnings of its foreign subsidiaries. As of December 31, 2017, the amount of earnings for which no repatriation tax has been provided was estimated to be \$0.

At December 31, 2017 the company had a federal tax credit carryforward of approximately \$21,200 which will expire at various times through 2036.

The tax years 2014 through 2017 remain open to examination by major taxing jurisdictions. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The (decrease) increase included in tax expense for the years end December 31, 2017, 2016 and 2015 were \$(60), \$(20) and \$(200), respectively.

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%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. The Company recorded a tax benefit for the impact of the 2017 Tax Act of approximately \$13,900, in its consolidated financial statements as of December 31, 2017. This amount is primarily comprised of the remeasurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate from 35% to 21%, after taking into account the mandatory one-time tax on the accumulated earnings of the Company's foreign subsidiaries.

The Tax Legislation provided for a one-time deemed mandatory repatriation for post-1986 undistributed foreign subsidiary earnings and profits ("E&P") through the year ended December 31, 2017. The Company's initial estimate shows a deficit in foreign E&P and significant foreign taxes paid, which may be creditable against any tax resulting from the deemed mandatory repatriation. The Company will continue to refine its calculations of foreign E&P, however the Company does not expect the deemed mandatory repatriation to result in material tax assessment. 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.

In February 2018, as part of the Bipartisan Budget Act, Code Section 179D Commercial Buildings Energy Efficiency Tax Deduction was retroactively extended through December 31, 2017. The impact is not reflected in the Company's effective tax rate for 2017 but will be included as a tax benefit in the Company's 2018 first quarter tax provision.

**9. INVESTMENT FUNDS**

During the third quarter of 2015, the Company formed an investment fund for the purpose of funding the purchase of a solar energy system. During the second quarter of 2017, the Company formed an additional investment fund for the



purpose of funding the purchase of a solar energy system. The Company consolidates the investment funds, and all inter-company balances and transactions between the Company and the investment funds are eliminated in its consolidated financial statements. The Company determined that the investment funds meet the definition of a VIE. The Company uses a qualitative approach in assessing the consolidation requirement for VIEs that focuses on determining whether the Company has the power to direct the

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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 this VIE, including determining the solar energy systems and associated long term customer contracts to be sold or contributed to the VIE, and installation, operation and maintenance of the solar energy systems. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights. As such, the Company has determined it is the primary beneficiary of the VIE 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 fund, 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 fund investor and Company's subsidiary as specified in contractual arrangements. Certain of these arrangements have call and put options to acquire the investor's equity interest as specified in the contractual agreement. See Note 10 for additional information on the call and put options.

A summary of amounts related to the investment funds in the Company's consolidated balance sheets for the years ending December 31, 2017 and 2016 is as follows:

	2017	2016
Cash	\$ 444	\$ 1,157
Restricted cash	1,553	1,554
Accounts receivable	328	80
Costs and estimated earnings in excess of billings	360	50
Prepaid expenses and other current assets	8	50
Energy assets, net	55,712	32,185
Other assets	—	77
Accounts payable	764	102
Accrued liabilities	74	63
Other liabilities	75	—

**10. NON-CONTROLLING INTERESTS AND EQUITY****Redeemable Non-controlling Interest**

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 (the "Call Option"). The Company's investment fund, which was 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 (the "Put Option").

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

The purchase price for the funds investors' interests under the call options is equal to the fair market value of such interest at the time the option is exercised. The call options are exercisable beginning on the date that specified

conditions are met for each respective fund. None of the call options are expected to become exercisable prior to 2021. The purchase price for the funds investors' interests in the investment funds under the put options is the lessor of fair market value at the time the option is exercised and a specified amount, ranging from \$659 - \$917. The put options for this

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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 December 31, 2017 and 2016, redeemable non-controlling interests were reported at their carrying value of \$10,338 and \$6,847, respectively, as the carrying value at each reporting period was greater than the estimated redemption value.

**Common and Preferred Stock**

The Company has authorized 500,000,000 shares of Class A common stock, par value \$0.0001 per share, 144,000,000 shares of Class B common stock, par value \$0.0001 per share, and 5,000,000 shares of Preferred Stock, par value \$0.0001 per share. The rights of the holders of the Company's Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of the Company's Class A common stock is entitled to one vote per share and is not convertible into any other shares of the Company's capital stock. Each share of the Company's Class B common stock is entitled to five votes per share, is convertible at any time into one share of Class A common stock at the option of the holder of such share and will automatically convert into one share of Class A common stock upon the occurrence of certain specified events, including a transfer of such shares (other than to such holder's family members, descendants or certain affiliated persons or entities). The Company's Board of Directors is authorized to fix the rights and terms for any series of preferred stock without additional shareholder approval.

**11. STOCK INCENTIVE PLAN**

In 2000, the Company's Board of Directors approved the Company's 2000 Stock Incentive Plan (the "2000 Plan") and between 2000 and 2010 authorized the Company to reserve a total of 28,500,000 shares of its then authorized common stock, par value \$0.0001 per share ("Common Stock") for issuance under the 2000 Plan. The 2000 Plan provided for the issuance of restricted stock grants, incentive stock options and nonqualified stock options. The Company will grant no further stock options or restricted awards under the 2000 Plan.

The Company's 2010 Stock Incentive Plan (the "2010 Plan"), was adopted by the Company's Board of Directors in May 2010 and approved by its stockholders in June 2010. The 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, performance-based stock options, restricted stock awards and other stock-based awards. Upon its effectiveness, 10,000,000 shares of the Company's Class A common stock were reserved for issuance under the 2010 Plan. As of December 31, 2017, the Company had granted options to purchase 3,509,957 shares of Class A common stock under the 2010 Plan.

The Company's 2017 Employee Stock Purchase Plan ("ESPP") permits eligible employees to purchase up to an aggregate of 100,000 shares of the Company's Class A common stock. This plan commenced December 1, 2017. The ESPP allows participants to purchase shares of common stock at a 5% discount from the fair market value of the stock as determined on specific dates at six-month intervals. During the year ended December 31, 2017, the Company issued no shares under the ESPP as the first offering period does not end until May 2018. As of December 31, 2017, approximately \$38 had been withheld from employees for future purchases under the ESPP.

**Stock Option Grants**

The Company has granted stock options to certain employees and directors, including its principal and controlling stockholder, under the 2000 Plan. The Company has also granted stock options to certain employees and directors under the 2010 Plan. At December 31, 2017, 7,100,394 shares were available for grant under the 2010 Plan.



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The following table summarizes the collective activity under the 2000 Plan and the 2010 Plan:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Remaining	Aggregate Intrinsic Value
Outstanding at December 31, 2014	3,893,573	\$ 7.721			
Granted <sup>(1)</sup>	747,100	6.404			
Exercised	(332,600 )	3.467			
Forfeited	(168,633 )	9.409			
Outstanding at December 31, 2015	4,139,440	7.740			
Granted <sup>(1)</sup>	665,000	4.703			
Exercised	(320,892 )	3.286			
Forfeited	(194,562 )	8.154			
Expired	(317,604 )	11.293			
Outstanding at December 31, 2016	3,971,382	7.300			
Granted <sup>(1)</sup>	390,353	6.061			
Exercised	(401,031 )	4.935			
Forfeited	(41,500 )	6.421			
Expired	(85,557 )	10.157			
Outstanding at December 31, 2017	3,833,647	\$ 7.367	5.22		\$ 7,691
Options exercisable at December 31, 2017	2,494,009	\$ 8.280	3.59		\$ 3,741
Expected to vest at December 31, 2017	1,339,638	\$ 5.667	8.25		\$ 3,950

(1) Grants are related to the 2010 Plan.

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2017, 2016 and 2015 was \$808, \$575 and \$1,024, respectively.

During the year ended December 31, 2017, a total of 401,031 shares were issued upon the exercise of options under the 2000 and 2010 Plan at an average price of \$4.935 per share. Cash received from option exercises under all stock-based payment arrangements, net, for the years ended December 31, 2017, 2016 and 2015 was \$1,977, \$1,054 and \$1,153, respectively.

Stock options issued under our 2000 Plan generally expire if not exercised within ten years after the grant date. Under the terms of our 2010 stock incentive plan, all options expire if not exercised within ten years after the grant date. During 2011, the Company began awarding options which typically vest over a five year period on an annual ratable basis. From time to time, the Company awards options providing for vesting over three years, with one-third vesting on each of the first three anniversaries of the grant date. During the year ending December 31, 2016, the Company also awarded options that vest based upon the achievement of specific performance goals. If the employee ceases to be employed by the Company for any reason before vested options have been exercised, the employee has 90 days to exercise options that have vested as of the date of such employee's termination or they are forfeited.

The Company uses the Black-Scholes option pricing model to determine the weighted-average fair value of options granted. The Company will recognize the compensation cost of stock-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The following table sets forth the significant assumptions used in the model during 2017, 2016 and 2015:

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	Year Ended December 31,		
	2017	2016	2015
Expected dividend yield	—%	—%	—%
Risk-free interest rate	1.96%-2.36%	1.16%-1.77%	1.53%-2.01%
Expected volatility	46%	46%-49%	44%-49%
Expected life	6.5 years	6.5-10 years	5.0-6.5 years

The Company will continue to use judgment in evaluating the expected term and volatility related to the stock-based compensation on a prospective basis, and incorporating these factors into the Black-Scholes pricing model. The Company records forfeitures as they occur. Higher volatility and longer expected lives result in an increase to stock-based compensation expense determined at the date of grant.

The weighted-average fair value of stock options granted during the years ended December 31, 2017, 2016 and 2015, under the Black-Scholes option pricing model was \$2.93, \$2.60 and \$3.03, respectively, per share. For the years ended December 31, 2017, 2016 and 2015, the Company recorded stock-based compensation expense of approximately \$1,293, \$1,462, and \$1,769, respectively, in connection with stock-based payment awards. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options. As of December 31, 2017, there was approximately \$2,768 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.

**12. EMPLOYEE BENEFITS**

The Company has salary reduction/profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code. The plans cover all employees who have completed the minimum service requirement, as defined by the plans. The plans require the Company to contribute 100% of the first six percent of base compensation that a participant contributes to the plans. Matching contributions made by the Company were \$3,832, \$4,600 and \$4,733 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has a Group Personal Pension Plan (GPPP) for employees in the U.K., established in 2016, whereby eligible employees may contribute a portion of their compensation, subject to their age and other limitations established by HM Revenue & Customs. The plan requires the Company to contribute 100% of the first six percent of base compensation that a participant contributes to the plans. Matching contributions made by the Company were \$344 and \$202 for the years ended December 31, 2017 and 2016, respectively.

The Company has a Registered Retirement Savings Plan (RRSP) for employees in Canada, whereby eligible employees may contribute a portion of their compensation. The plan requires the Company to contribute 100% of the first six percent of base compensation that a participant contributes to the plans. Matching contributions made by the Company were \$774, \$307 and \$411 for the years ended December 31, 2017, 2016 and 2015, respectively.

**13. COMMITMENTS AND CONTINGENCIES**

The Company from time to time issues letters of credit and performance bonds, with their third-party lenders, to provide collateral.

The Company leases certain administrative offices. The leases are long-term noncancelable real estate lease agreements, expiring at various dates through fiscal 2025. The agreements generally provide for fixed minimum rental payments and the payment of utilities, real estate taxes, insurance and repairs. Rent and related expenses for the years ended December 31, 2017, 2016 and 2015 was \$6,362, \$6,147 and \$6,070, respectively.





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The Company's estimated minimum future lease obligations under operating leases are as follows:

	Operating Leases
Year ended December 31,	
2018	\$ 5,549
2019	4,677
2020	3,864
2021	2,919
2022	2,711
Thereafter	7,166
Total minimum lease payments	\$ 26,886

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.

Solar Tariff Contingency

In October 2012, the U.S. Department of Commerce ("Commerce") announced its final determination in the anti-dumping ("AD") and countervailing duty ("CVD") investigations of imports of solar cells manufactured in the People's Republic of China ("PRC"), including solar modules containing such cells. Commerce's final determination confirmed its previously published AD duty of 249.96%, for manufacturers without a separate rate, and increased its CVD from 3.61% to 15.24%; both duties are applied to the value of imports of solar modules containing PRC cells. On November 7, 2012, the International Trade Commission announced its final determination upholding the duties. All shipments from May 25, 2012 until the Company suspended importing solar modules containing PRC cells in July 2012 ("covered shipments") were subject to the CVD and were covered by a single continuous entry bond. Covered shipments also were subject to AD duty, for each of which the Company was required to post a single entry bond. In August 2014, U.S. Customs lifted suspension of liquidation of covered shipments. As a result of liquidation, during the third and fourth quarters of 2014, the Company paid CVD on covered shipments at the 3.61% rate. During the fourth quarter of 2014 through the first quarter of 2015, the Company paid AD duties on covered shipments at a 31.18% rate. During the fourth quarter of 2015, the Company received the final bill from U.S. Customs for liquidation of one remaining covered shipment containing PRC cells and the matter was resolved in the first quarter of 2016.

Commitments as a Result of Acquisitions

Related to the Company's acquisition of EEX in the second quarter of 2014 (see Note 3), the former owners of EEX, who are now employees of the Company, may be entitled to receive up to 4,500 GBP (\$6,071 converted as of December 31, 2017) in additional consideration, accounted for as compensation for post-combination services, if the acquired business meets certain financial performance milestones through December 31, 2018.

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

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## 14. GEOGRAPHIC INFORMATION

The Company attributes revenues to customers based on the location of the customer. Information as to the Company's operations in different geographical areas is as follows:

	December 31,		
	2017	2016	
Long-lived assets:			
United States	\$343,344	\$306,908	
Canada	17,082	16,454	
Other	1,320	1,414	
Total long-lived assets	\$361,746	\$324,776	
	Year Ended December 31,		
	2017	2016	2015
Revenues:			
United States	\$665,793	\$588,791	\$567,815
Canada	42,186	49,706	48,968
Other	9,173	12,730	14,049
Total revenues	\$717,152	\$651,227	\$630,832

## 15. OTHER EXPENSES, NET

The components of other expenses, net, are as follows:

	Year Ended December 31,		
	2017	2016	2015
Unrealized gain on interest rate swaps	\$(271 )	\$(279 )	\$(368 )
Interest expense, net of interest income	8,086	6,510	3,734
Amortization of deferred financing fees, net	1,350	1,173	1,030
Foreign currency transaction (gain) loss	(1,294 )	5	2,369
Other expenses, net	\$7,871	\$7,409	\$6,765

Estimated amortization expense for existing deferred financing fees for the next five succeeding fiscal years is as follows:

	Estimated Amortization
2018	\$ 1,507
2019	1,340
2020	828
2021	565
2022	479

## 16. 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.



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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 December 31,	
	Level 2017	2016
Assets:		
Interest rate swap instruments	2	\$233 \$—
Liabilities:		
Interest rate swap instruments	2	\$3,529 \$3,843

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

The fair value of financial instruments is determined by reference to observable market data and other valuation techniques, as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At December 31, 2017 and 2016, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements which are considered to be level two inputs. There have been no transfers in or out of level two for the years ended December 31, 2017 and 2016. 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 December 31, 2017		As of December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	\$160,108	\$160,598	\$145,746	\$145,238

The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. The Company determined the fair value used in its annual goodwill impairment analysis with its own discounted cash flow analysis. The Company has determined the inputs used in such analysis as Level 3 inputs. There were no fair value measurements on a nonrecurring basis during the years ended December 31, 2017 or 2016.

**17. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

At December 31, 2017 and 2016, the following table presents information about the fair value amounts of the Company's derivative instruments:

	Derivatives as of December 31,			
	2017		2016	
	Balance Sheet	Location	Balance Sheet	Location
	Fair Value		Fair Value	
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other assets	\$233	Other assets	\$—
Interest rate swap contracts	Other liabilities	\$3,529	Other liabilities	\$3,843

All of the Company's derivatives were designated as hedging instruments for the years ended December 31, 2017 and 2016. All but one derivative were designated as hedging instruments prior to March 2013 and all were designated as hedging instruments for the remainder of the year ended December 31, 2013.

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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 Income (Loss)	Amount of Gain Recognized in Net Income (Loss) for the Year Ended December 31,		
		2017	2016	2015
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other expenses, net	\$ (271)	\$ (279)	\$ (368)
	Year Ended December 31, 2017			
Derivatives Designated as Hedging Instruments:				
Accumulated loss in AOCI at the beginning of the period		\$ (2,042 )		
Unrealized gain recognized in AOCI		1,095		
Loss reclassified from AOCI to other expenses, net		(798 )		
Accumulated loss in AOCI at the end of the period		\$ (1,745 )		

## 18. BUSINESS SEGMENT INFORMATION

The Company reports results under ASC 280, Segment Reporting. The Company's reportable segments for the year ended December 31, 2017 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. The Company's U.S. Regions segment also 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. For the years ended December 31, 2017, 2016 and 2015 unallocated corporate expenses were \$27,195, \$32,225 and \$26,077, respectively. The accounting policies are the same as those described in the summary of significant accounting policies in Note 2. During the year ended December 31, 2016, the Company reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts. During the year ended December 31, 2016, the Company included in unallocated corporate activity \$2,870 as a reserve for amounts payable from a customer who declared bankruptcy.

For the years ended December 31, 2017, 2016 and 2015 more than 77% of the Company's revenues have been derived from federal, state, provincial or local government entities, including public housing authorities and public universities. The U.S. federal government, which is considered a single customer for reporting purposes, constituted

32.0%, 27.3% and 20.2% of the Company's consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. Revenues from the U.S. federal government are included in the Company's U.S. Federal segment. The reports of the Company's chief operating decision maker do not include assets at the operating segment level.



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

	U.S. Regions	U.S. Federal	Canada	Non-solar DG	All Other	Total Consolidated
2017						
Revenues	\$290,196	\$229,146	\$43,803	\$79,220	\$74,787	\$717,152
Interest income	2	44	1	83	—	130
Interest expense	2,672	1,056	1,927	3,389	38	9,082
Depreciation and intangible asset amortization	2,974	2,623	1,178	15,259	1,881	23,915
Unallocated corporate activity	—	—	—	—	—	(27,195 )
Income before taxes, excluding unallocated corporate activity	13,865	29,261	1,751	8,115	2,920	55,912
2016						
Revenues	276,766	178,005	50,448	74,395	71,613	651,227
Interest income	1	11	—	38	—	50
Interest expense	1,055	942	1,737	3,319	23	7,076
Depreciation and intangible asset amortization	1,901	2,588	1,090	14,557	2,628	22,764
Unallocated corporate activity	—	—	—	—	—	(32,225 )
Income (loss) before taxes, excluding unallocated corporate activity	19,802	22,246	(2,330 )	9,301	(427 )	48,592
2015						
Revenues	306,086	127,620	49,235	61,626	86,265	630,832
Interest income	1	1	1,154	175	—	1,331
Interest expense	359	—	1,338	3,553	—	5,250
Depreciation and intangible asset amortization	1,823	1,209	1,081	13,331	4,078	21,522
Unallocated corporate activity	—	—	—	—	—	(26,077 )
Income (loss) before taxes, excluding unallocated corporate activity	25,856	16,676	(15,449 )	7,609	(8,323 )	26,369

Information as to the Company's revenues by service and product lines is as follows:

	Year Ended December 31,		
	2017	2016	2015
Revenues:			
Project(1)	\$506,550	\$454,200	\$434,380
Energy Assets(2)	69,241	64,882	55,130
O&M(3)	60,574	63,082	59,117
Integrated-PV(4)	38,796	29,325	40,070
Other Services	41,991	39,738	42,135
Total Revenues	\$717,152	\$651,227	\$630,832

(1) Project revenues consists of services related to the design, engineering and installation of, and the arranging of financing for, equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure. Project revenues also include the construction for customers of small-scale plants that produce electricity, gas, heat or cooling from renewable sources of energy.

(2) Energy Assets revenues includes the sale of electricity, processed LFG, heat or cooling from plants that the Company owns.



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(3) O&M revenues includes operations and maintenance services for customers as well as measurement and verification services related to our ESPCs.

(4) Integrated-PV revenues includes the sale of solar PV energy products and systems.

## 19. QUARTERLY INFORMATION (Unaudited)

The following tables set forth selected unaudited condensed consolidated statement of income (loss) data for each of the most recent eight quarters ended December 31, 2017. Operating results for any quarter are not necessarily indicative of results for any future period.

	Three Months Ended,			
	March 31	June 30	September 30	December 31
2017				
Revenues	\$ 134,610	\$ 166,665	\$ 204,744	\$ 211,133
Gross profit	\$ 25,924	\$ 35,408	\$ 41,367	\$ 41,459
Net income (loss) attributable to common shareholders	\$(644 )	\$ 5,831	\$ 8,493	\$ 23,811
Net income per share attributable to common shareholders:				
Basic	\$(0.01 )	\$ 0.13	\$ 0.19	\$ 0.52
Diluted	\$(0.01 )	\$ 0.13	\$ 0.19	\$ 0.52
Weighted average common shares outstanding:				
Basic	45,514,000	45,463,000	45,524,000	45,537,000
Diluted	45,514,000	45,675,000	45,771,000	45,957,000
2016				
Revenues	\$ 133,776	\$ 162,628	\$ 180,598	\$ 174,225
Gross profit	\$ 27,676	\$ 31,856	\$ 38,795	\$ 36,017
Net income attributable to common shareholders	\$ 1,054	\$ 1,994	\$ 5,715	