

Ameresco, Inc.
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-34811

Ameresco, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

111 Speen Street, Suite 410

Framingham, Massachusetts

(Address of Principal Executive Offices)

(508) 661-2200

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

Class	Shares outstanding as of November 1, 2013
Class A Common Stock, \$0.0001 par value per share	27,827,717
Class B Common Stock, \$0.0001 par value per share	18,000,000

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 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013
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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,790,233	\$ 63,347,645
Restricted cash	25,817,232	26,358,908
Accounts receivable, net	79,043,751	84,124,627
Accounts receivable retainage	24,895,807	23,197,784
Costs and estimated earnings in excess of billings	64,020,703	62,096,284
Inventory, net	9,408,046	9,502,289
Prepaid expenses and other current assets	10,108,304	9,600,619
Income tax receivable	5,951,233	5,385,242
Deferred income taxes	4,503,551	5,190,718
Project development costs	11,877,141	9,038,725
Total current assets	254,416,001	297,842,841
Federal ESPC receivable	27,616,681	91,854,808
Property and equipment, net	9,362,245	9,387,218
Project assets, net	227,100,403	207,274,982
Deferred financing fees, net	5,554,225	5,746,177
Goodwill	55,615,137	48,968,390
Intangible assets, net	10,236,744	9,742,878
Other assets	7,255,009	4,654,709
	342,740,444	377,629,162
	\$597,156,445	\$ 675,472,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 15,653,453	\$ 12,452,678
Accounts payable	77,333,742	101,007,455
Accrued expenses and other current liabilities	11,847,160	13,157,024
Billings in excess of cost and estimated earnings	14,532,741	22,271,655
Total current liabilities	119,367,096	148,888,812
Long-term debt, less current portion	150,492,409	201,922,172
Deferred income taxes	22,677,085	24,888,229
Deferred grant income	7,736,754	7,590,730
Other liabilities	27,737,611	30,362,869
	\$208,643,859	\$264,764,000

Commitments and contingencies (Note 7)

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

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AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS — (Continued)

	September 30, 2013 (Unaudited)	December 31, 2012
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2013 and December 31, 2012	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 32,527,901 shares issued and 27,694,617 outstanding at September 30, 2013, 32,019,982 shares issued and 27,186,698 outstanding at December 31, 2012	3,253	3,202
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at September 30, 2013 and December 31, 2012	1,800	1,800
Additional paid-in capital	97,360,315	93,141,432
Retained earnings	178,010,011	177,169,717
Accumulated other comprehensive income	2,949,677	713,194
Non-controlling interest	3,005	(27,583)
Less - treasury stock, at cost, 4,833,284 shares	(9,182,571)	(9,182,571)
Total stockholders' equity	269,145,490	261,819,191
	\$597,156,445	\$675,472,003

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

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Revenue:		
Energy efficiency revenue	\$108,872,457	\$108,418,955
Renewable energy revenue	52,776,356	55,487,250
	161,648,813	163,906,205
Direct expenses:		
Energy efficiency expenses	88,500,003	87,898,560
Renewable energy expenses	43,084,980	41,205,349
	131,584,983	129,103,909
Gross profit	30,063,830	34,802,296
Operating expenses:		
Salaries and benefits	10,374,465	12,441,502
Project development costs	4,013,498	4,288,657
General, administrative and other	8,093,904	7,362,802
	22,481,867	24,092,961
Operating income	7,581,963	10,709,335
Other expenses, net (Note 9)	1,589,360	1,313,278
Income before provision for income taxes	5,992,603	9,396,057
Income tax provision	1,447,486	2,683,936
Net income	\$4,545,117	\$6,712,121
Net income per share attributable to common shareholders:		
Basic	\$0.10	\$0.15
Diluted	\$0.10	\$0.15
Weighted average common shares outstanding:		
Basic	45,621,552	44,788,160
Diluted	46,605,360	46,247,239

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

Table of ContentsAMERESCO, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Revenue:		
Energy efficiency revenue	\$263,944,074	\$341,620,742
Renewable energy revenue	134,092,956	132,958,737
	398,037,030	474,579,479
Direct expenses:		
Energy efficiency expenses	213,708,750	275,391,607
Renewable energy expenses	109,363,003	104,003,905
	323,071,753	379,395,512
Gross profit	74,965,277	95,183,967
Operating expenses:		
Salaries and benefits	32,162,357	38,369,446
Project development costs	13,333,880	12,335,875
General, administrative and other	25,878,594	22,085,897
	71,374,831	72,791,218
Operating income	3,590,446	22,392,749
Other expenses, net (Note 9)	2,502,405	3,833,761
Income before provision for income taxes	1,088,041	18,558,988
Income tax provision	247,747	5,292,453
Net income	\$840,294	\$13,266,535
Net income per share attributable to common shareholders:		
Basic	\$0.02	\$0.30
Diluted	\$0.02	\$0.29
Weighted average common shares outstanding:		
Basic	45,472,517	44,492,509
Diluted	46,390,468	46,010,138

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Net income	\$4,545,117	\$6,712,121
Other comprehensive income:		
Unrealized gain (loss) from interest rate hedge, net of tax	89,714	(91,023)
Foreign currency translation adjustments	1,162,613	1,086,724
Total other comprehensive income	1,252,327	995,701
Comprehensive income	\$5,797,444	\$7,707,822

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

AMERESCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Net income	\$840,294	\$13,266,535
Other comprehensive income:		
Unrealized gain from interest rate hedge, net of tax	2,620,900	476,763
Foreign currency translation adjustments	(384,417)	957,808
Total other comprehensive income	2,236,483	1,434,571
Comprehensive income	\$3,076,777	\$14,701,106

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

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AMERESCO, INC.
 CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
 (Unaudited)

	Preferred Stock Shares	Class B Common Stock Amount	Class A Common Stock Shares	Common Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Non-contro Interest
Balance, December 31, 2012	—	\$ 1,800	32,019,982	\$ 3,202	\$ 93,141,432	\$ 177,169,717	4,833,284	\$(9,182,571)	\$(27,583)
Exercise of stock options	—	—	507,919	51	1,675,995	—	—	—	—
Stock-based compensation expense, including excess tax benefits of \$417,612	—	—	—	—	2,542,888	—	—	—	—
Non-controlling interest	—	—	—	—	—	—	—	—	30,588
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—
Unrealized gain from interest rate hedge, net of tax	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	840,294	—	—	—
Balance, September 30, 2013	—	\$ 1,800	32,527,901	\$ 3,253	\$ 97,360,315	\$ 178,010,011	4,833,284	\$(9,182,571)	\$ 3,005

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Cash flows from operating activities:		
Net income	\$4,545,117	\$6,712,121
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of project assets	2,902,714	2,903,901
Depreciation of property and equipment	855,727	721,330
Amortization of deferred financing fees	518,251	95,667
Amortization of intangible assets	1,467,873	1,113,033
Provision for bad debts	137,227	6,024
Unrealized (gain) loss on interest rate swap	(124,980)	) 59,061
Gain on sale of asset	(631,917)) —
Stock-based compensation expense	789,416	853,866
Deferred income taxes	(682,904)	) (951,974)
Excess tax benefits from stock-based compensation arrangements	(120,601)	) (723,710)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	11,013,725	5,688,561
Accounts receivable	(2,106,271)	) (5,633,607)
Accounts receivable retainage	(37,866)	) 3,150,711
Federal ESPC receivable	(10,533,232)	) (2,569,522)
Inventory	2,800,877	2,052,646
Costs and estimated earnings in excess of billings	(11,352,008)	) (5,950,854)
Prepaid expenses and other current assets	931,682	2,564,642
Project development costs	(412,795)	) (1,078,080)
Other assets	(1,839,224)	) 312,248
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	10,831,805	(2,942,065)
Billings in excess of cost and estimated earnings	(7,075,163)	) (7,286,785)
Other liabilities	1,882,477	2,826,363
Income taxes payable	(52,156)	) 1,155,924
Net cash provided by operating activities	3,707,774	3,079,501
Cash flows from investing activities:		
Purchases of property and equipment	(790,427)	) (1,715,410)
Purchases of project assets	(4,136,438)	) (11,604,966)
Grant awards received on project assets	—	395,007
Proceeds from sales of assets	3,504,000	—
Acquisition, net of cash received	(599,375)	) (3,677,393)
Net cash used in investing activities	\$(2,022,240)	) \$(16,602,762)

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

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Three Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$ 120,601	\$ 723,710
Payments of financing fees	—	(164,753)
Proceeds from exercises of options	426,294	1,216,985
Proceeds from senior secured credit facility	3,000,000	12,017,429
Non-controlling interest	(10,042)	—
Restricted cash	(2,349,555)	(1,454,199)
Payments on long-term debt	(1,643,787)	(1,245,455)
Net cash (used in) provided by financing activities	(456,489)	11,093,717
Effect of exchange rate changes on cash	(68,775)	(303,643)
Net increase (decrease) in cash and cash equivalents	1,160,270	(2,733,187)
Cash and cash equivalents, beginning of period	17,629,963	28,909,987
Cash and cash equivalents, end of period	\$ 18,790,233	\$ 26,176,800
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 2,058,223	\$ 2,073,848
Income taxes	\$ 2,449,775	\$ 753,889
Acquisition, net of cash received:		
Accounts receivable	\$—	\$ 320,997
Inventory	660,050	
Prepaid expenses and other current assets	—	107,715
Property and equipment	—	43,115
Goodwill	—	2,291,163
Intangible assets	—	1,712,021
Other assets	—	100
Accounts payable and accrued expenses	(60,675)	(605,869)
Billings in excess of cost and estimated earnings	—	(160,939)
Other liabilities	—	(30,910)
	\$ 599,375	\$ 3,677,393
Noncash ESPC receivable financing	\$ 43,816,695	\$—

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Cash flows from operating activities:		
Net income	\$840,294	\$13,266,535
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation of project assets	9,781,865	8,359,908
Depreciation of property and equipment	2,465,981	2,002,804
Amortization of deferred financing fees	850,713	367,145
Amortization of intangible assets	3,256,948	4,084,055
Provision for bad debts	508,535	83,767
Unrealized (gain) loss on interest rate swap	(1,378,039)	178,813
Gain on sale of asset	(631,917)	(800,000)
Stock-based compensation expense	2,125,276	2,527,926
Deferred income taxes	(3,553,593)	(1,458,605)
Excess tax benefits from stock-based compensation arrangements	(417,612)	(2,375,223)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	29,018,663	29,841,218
Accounts receivable	4,749,408	6,936,036
Accounts receivable retainage	(1,610,440)	5,230,093
Federal ESPC receivable	(24,317,877)	(28,345,258)
Inventory	754,293	1,542,422
Costs and estimated earnings in excess of billings	(1,420,819)	6,246,532
Prepaid expenses and other current assets	(594,650)	885,482
Project development costs	(2,843,145)	(2,234,165)
Other assets	(2,597,959)	(629,034)
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	(25,354,177)	(11,702,805)
Billings in excess of cost and estimated earnings	(6,703,710)	957,105
Other liabilities	2,376,895	3,351,544
Income taxes payable	(417,194)	4,239,382
Net cash (used in) provided by operating activities	(15,112,261)	42,555,677
Cash flows from investing activities:		
Purchases of property and equipment	(2,331,004)	(4,096,980)
Purchases of project assets	(35,755,383)	(31,303,607)
Grant awards and rebates received on project assets	1,580,219	4,233,773
Proceeds from sales of assets	3,510,500	—
Acquisitions, net of cash received	(9,944,976)	(3,677,393)
Net cash used in investing activities	\$(42,940,644)	\$(34,844,207)
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	(Unaudited and Restated)
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$417,612	\$2,375,223
Book overdraft	—	(7,297,122)
Payments of financing fees	(504,985)	(185,078)
Proceeds from exercises of options	1,676,046	3,016,256
Proceeds from senior secured credit facility	18,000,000	4,160,287
Proceeds from long-term debt financing	9,434,434	—
Non-controlling interest	30,588	7,700
Restricted cash	(7,547,832)	(6,252,306)
Payments on long-term debt	(8,384,516)	(3,380,412)
Net cash provided by (used in) financing activities	13,121,347	(7,555,452)
Effect of exchange rate changes on cash	374,146	(256,584)
Net decrease in cash and cash equivalents	(44,557,412)	(100,566)
Cash and cash equivalents, beginning of year	63,347,645	26,277,366
Cash and cash equivalents, end of period	\$18,790,233	\$26,176,800
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$4,880,816	\$4,100,251
Income taxes	\$3,350,455	\$1,260,810
Acquisitions, net of cash received:		
Accounts receivable	\$558,621	\$320,997
Accounts receivable retainage	248,072	—
Costs and estimated earnings in excess of billings	657,595	—
Inventory	660,050	—
Prepaid expenses and other current assets	1,710	107,715
Property and equipment	137,952	43,115
Goodwill	6,010,177	2,291,163
Intangible assets	3,697,509	1,712,021
Other assets	—	100
Accounts payable and accrued expenses	(1,029,214)	(605,869)
Billings in excess of cost and estimated earnings	(30,431)	(160,939)
Income taxes payable	(256,938)	—
Deferred tax liabilities	(710,127)	—
Other liabilities	—	(30,910)
	\$9,944,976	\$3,677,393
Noncash ESPC receivable financing	\$88,556,004	\$—

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

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AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

Ameresco, Inc. (including its subsidiaries, the “Company”) was organized as a Delaware corporation on April 25, 2000. The Company is a provider of energy efficiency solutions for facilities throughout North America. The Company provides solutions, both products and services, that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. The Company’s comprehensive set of services includes upgrades to a facility’s energy infrastructure and the construction and operation of small-scale renewable energy plants. It also sells certain photovoltaic 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 generating assets; and 3) direct payment for photovoltaic equipment and systems.

The condensed consolidated financial statements as of September 30, 2013 and December 31, 2012, and for the three and nine months ended September 30, 2013 and 2012, include the accounts of Ameresco Inc., its wholly owned subsidiaries and one subsidiary for which there is a minority shareholder. All significant intercompany transactions have been eliminated. The condensed consolidated financial statements as of September 30, 2013, and for the three and nine months ended September 30, 2013 and 2012, are unaudited. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. The interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation in conformity with GAAP. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on March 18, 2013 (the “2012 Form 10-K”). The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restatement

As reported in the Company’s 2012 Form 10-K, the Company restated its historical consolidated financial statements as of and for the years ended December 31, 2011 and 2010, and historical unaudited quarterly information for the quarters in the years ended December 31, 2012, 2011 and 2010. These restatements are the result of an error in the Company’s accounting treatment for a certain derivative transaction under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging.

ASC 815-20-25 requires that all derivative instruments be recorded on the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivatives’ fair values be recognized currently in earnings unless specific hedge accounting criteria are met. The Company previously had designated a floating-to-fixed interest rate swap entered into in March 2010 as a hedge using the “short cut” method. The Company determined, however, that the March 2010 interest rate swap does not qualify for hedge accounting because the Company inappropriately applied the “short cut” method to evaluate this swap for hedge accounting purposes from the date of inception. Accordingly, the change in the fair value of this interest rate swap derivative is required to be recognized as a component of earnings for the periods commencing in March 2010. The accounting error has no effect on cash flows from operating, investing or financing activities or on the Company’s debt covenant calculations.

Effective March 29, 2013, the Company has designated the March 2010 interest rate swap as a hedge using the “long-haul” method.

See Note 2 of “Notes to Consolidated Financial Statements” appearing in Item 8 of the Company’s 2012 Form 10-K for additional information about the restatement.

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AMERESCO, INC.

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

The following table sets forth selected restated unaudited condensed consolidated statement of income data for the quarter and year-to-date periods ended September 30, 2012:

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	As Reported	Restatement	As Restated	As Reported	Restatement	As Restated
Total revenue	\$163,906,205	\$—	\$163,906,205	\$474,579,479	\$—	\$474,579,479
Direct expenses	129,103,909	—	129,103,909	379,395,512	—	379,395,512
Operating expenses	24,092,961	—	24,092,961	72,791,218	—	72,791,218
Total expenses	153,196,870	—	153,196,870	452,186,730	—	452,186,730
Operating income	10,709,335	—	10,709,335	22,392,749	—	22,392,749
Other expenses, net	1,254,217	59,061	1,313,278	3,654,948	178,813	3,833,761
Income before provision for income taxes	9,455,118	(59,061)	9,396,057	18,737,801	(178,813)	18,558,988
Income tax provision	2,683,936	—	2,683,936	5,292,453	—	5,292,453
Net income	\$6,771,182	\$(59,061)	\$6,712,121	\$13,445,348	\$(178,813)	\$13,266,535
Net income per share attributable to common shareholders:						
Basic	\$0.15	\$—	\$0.15	\$0.30	\$—	\$0.30
Diluted	\$0.15	\$—	\$0.15	\$0.29	\$—	\$0.29
Weighted average common shares outstanding:						
Basic	44,788,160	44,788,160	44,788,160	44,492,509	44,492,509	44,492,509
Diluted	46,247,239	46,247,239	46,247,239	46,010,138	46,010,138	46,010,138

Codification

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting standards set by the Financial Accounting Standards Board. The FASB sets generally accepted accounting principles that the Company follows to ensure its financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these notes to the condensed consolidated financial statements are to the FASB Accounting Standards Codification.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Ameresco, Inc., its wholly owned subsidiaries and one subsidiary for which there is a minority shareholder. All significant intercompany accounts and transactions have been eliminated. Gains and losses from the translation of all foreign currency financial statements are recorded in the accumulated other comprehensive income account within stockholders' equity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions used in these condensed consolidated financial statements relate to management's estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, project development costs, fair value of

derivative financial instruments and stock-based awards,

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AMERESCO, INC.

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

impairment of long-lived assets, income taxes and potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash on deposit, overnight repurchase agreements and amounts invested in highly liquid money market funds. Cash equivalents consist of short term investments with original maturities of three months or less. The Company maintains accounts with financial institutions and the balances in such accounts, at times, exceed federally insured limits. This credit risk is divided among a number of financial institutions that management believes to be of high quality. The carrying amount of cash and cash equivalents approximates their fair value.

Restricted Cash

Restricted cash consists of cash held in an escrow account in association with construction draws for energy savings performance contracts ("ESPCs") and construction of project assets, 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.

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 at the end of the year. Bad debts are written off against the allowance when identified. Changes in the allowance for doubtful accounts for the nine months ended September 30, 2013 and 2012 are as follows:

	Nine Months Ended September 30,	
	2013	2012
Allowance for doubtful accounts, beginning of period	\$1,174,458	\$1,135,391
Charges to costs and expenses	508,535	83,767
Account write-offs and other	(63,476	) (124,634
Allowance for doubtful accounts, end of period	\$1,619,517	\$1,094,524

At September 30, 2013 and December 31, 2012, no one customer accounted for more than 10% of the Company's total accounts receivable.

During the three and nine months ended September 30, 2013 and 2012, no one customer accounted for more than 10% of the Company's total revenue.

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 five percent to ten percent of the total invoice.

Inventory

Inventories, which consist primarily of photovoltaic solar panels, batteries and related accessories, are stated at the lower of cost ("first-in, first-out" method) or market (determined on the basis of estimated net realizable values).

Provisions have been made to reduce the carrying value of inventory to the net realizable value.

Prepaid Expenses

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

Federal ESPC Receivable

Federal ESPC receivable represents the amount to be paid by various federal government agencies for work performed and earned by the Company under specific ESPCs. The Company assigns certain of its rights to receive those payments to third-party lenders that provide construction and permanent financing for such contracts. The receivable is recognized as revenue as each project is constructed. Upon completion and acceptance of the project by the government, typically within 24 months of

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

construction commencement, the assigned ESPC receivable and corresponding related project debt is eliminated from the Company's condensed consolidated financial statements.

Project Development Costs

The Company capitalizes as project development costs only those costs incurred in connection with the development of energy projects, primarily direct labor, interest costs, outside contractor services, consulting fees, legal fees and travel, if incurred after a point in time where the realization of related revenue becomes probable. Project development costs incurred prior to the probable realization of revenue are expensed as incurred. The Company classifies project development costs as a current asset as the development efforts are expected to proceed to construction activity in the twelve months that follow. The Company periodically reviews these balances and writes off any amounts where the realization of the related revenue is no longer probable.

Property and Equipment

Property and equipment consists primarily of office and computer equipment, and is recorded at cost. Major additions and improvements are capitalized as additions to the property and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets, are expensed as incurred. Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

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

Project Assets

Project assets consist of costs of materials, direct labor, interest costs, outside contract services and project development costs incurred in connection with the construction of small-scale renewable energy plants that the Company owns and the implementation of energy savings contracts. These amounts are capitalized and amortized 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. The interest capitalized is included in the total cost of the project at completion. The amount of interest capitalized for the three months ended September 30, 2013 and 2012 was \$595,611 and \$252,879, respectively. The amount of interest capitalized for the nine months ended September 30, 2013 and 2012 was \$1,311,005 and \$687,305, respectively. Routine maintenance costs are expensed in the current year's condensed consolidated statements of income to the extent that they do not extend the life of the asset. Major maintenance, upgrades and overhauls are required for certain components of the Company's assets. In these instances, the costs associated with these upgrades are capitalized and are depreciated over the shorter of the remaining life of the asset or the period until the next required major maintenance or overhaul. Gains or losses on disposal of property and equipment are reflected in general, administrative and other expenses in the condensed consolidated statements of income.

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

From time to time, the Company applies for and receives cash grant awards from the U.S. Treasury Department (the "Treasury") under Section 1603 of the American Recovery and Reinvestment Act of 2009 (the "Act"). The Act authorized

the Treasury to make payments to eligible persons who place in service qualifying renewable energy projects. The grants are paid in lieu of investment tax credits. All of the cash proceeds from the grants were used and recorded as a reduction in the cost basis of the applicable project assets. If the Company disposes of the property, or the property ceases to qualify as specified

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

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 received \$1,580,219 in Section 1603 grants during the nine months ended September 30, 2013, and \$395,007 and \$2,946,773 in Section 1603 grants during the three and nine months ended September 30, 2012, respectively. No grant awards were received during the three months ended September 30, 2013.

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 \$7,736,754 and \$7,590,730 recorded in the accompanying condensed consolidated balance sheets at September 30, 2013 and December 31, 2012, 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 received cash rebates from a utility company, which were accounted for as reductions in the book value of the related project 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 project assets and have been treated as an investing activity in the accompanying condensed consolidated statements of cash flows. No rebates were received during the nine months ended September 30, 2013. The Company received a rebate of \$1,287,000 during the nine months ended September 30, 2012.

Deferred Financing Fees

Deferred financing fees relate to the external costs incurred to obtain financing for the Company. All deferred financing fees are amortized over the respective term of the financing using the effective interest method.

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. The Company would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than their carrying values. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets.

Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, significant changes in business strategy, significant negative industry or economic trends or a significant decline in the base price of the Company's publicly traded stock for a sustained period of time. Although the Company believes goodwill and intangible assets are appropriately stated in the accompanying condensed consolidated financial statements, changes in strategy or market conditions could significantly impact these judgments and require an adjustment to the recorded balance. The Company recorded a goodwill impairment charge of \$1,016,325 for the year ended December 31, 2012. See Note 4 for additional disclosure.

During the second quarter of 2013, the Company entered into a stock purchase agreement to acquire, through a wholly owned subsidiary, 100% of the capital stock of The Energy Services Partnership Limited and ESP Response Limited (together, "ESP"). During the first quarter of 2013, the Company acquired substantially all of the assets of Ennovate Corporation ("Ennovate"). During the third quarter of 2012, the Company's wholly owned subsidiary Ameresco Canada Inc. entered into a stock purchase agreement to acquire 100% of the capital stock of FAME Facility Software Solutions, Inc. ("FAME"). The net purchase price for each acquisition has been allocated to the net identified assets acquired based on the respective fair values of such acquired assets at the dates of each acquisition. The residual

amounts were allocated to goodwill. The acquisition of ESP resulted in the Company recording goodwill totaling \$5,089,049. The acquisition of Ennovate resulted in the Company recording goodwill totaling \$921,128. The acquisition of FAME resulted in the Company recording goodwill totaling \$1,886,945. 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 fourteen years from their respective acquisition dates. See Notes 3 and 4 for additional disclosures.

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

Other Assets

Other assets consist primarily of notes and contracts receivable due to the Company from various customers as well as the fair value of interest rate swaps. See Note 11 for additional disclosure.

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 condensed consolidated statements of income. As of September 30, 2013 and December 31, 2012, the Company had no AROs.

Other Liabilities

Other liabilities consist primarily of deferred revenue related to multi-year operation and maintenance contracts which expire as late as 2031. Other liabilities also include the fair value of interest rate swaps, as well as deferred compensation relating to 2011 acquisitions . See Notes 7 and 11 for additional disclosures.

Revenue Recognition

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

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

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.

At September 30, 2013 and December 31, 2012, billings in excess of cost and estimated earnings represents advanced billings on certain construction contracts. Costs and estimated earnings in excess of billings represent certain amounts under customer contracts that were earned and billable but not invoiced.

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

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

The Company recognizes revenue from operations and maintenance (“O&M”) contracts and consulting 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.

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AMERESCO, INC.

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

Direct Expenses

Direct expenses 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.

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

Income Taxes

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

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

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

The Company considers matters to be effectively settled once the taxing authority has completed all of its required or expected examination procedures, including all appeals and administrative reviews; the Company has no plans to appeal or litigate any aspect of the tax position; and the Company believes that it is highly unlikely that the taxing authority would examine or re-examine the related tax position. The Company also accrues for potential interest and penalties, related to unrecognized tax benefits in income tax expense. See Note 5 for additional information on the Company's income taxes.

Foreign Currency Translation

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

Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, long-term contract receivables, accounts payable, long-term debt and interest rate swaps. The estimated fair value of cash and cash equivalents, restricted cash, accounts receivable, long-term contract receivables and accounts payable approximates their carrying value. See below for fair value measurements of long-term debt. See Note 10 for fair value measurement of interest rate swaps.

Stock-Based Compensation Expense

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. The Company recognizes the costs associated

with restricted stock and option grants using the fair value recognition provisions of ASC 718, Compensation - Stock Compensation on a straight-line basis over the vesting period of the awards.

Stock-based compensation expense is recognized based on the grant-date fair value. The Company estimates the fair value of the stock-based awards, including stock options, using the Black-Scholes option-pricing model. Determining the fair value

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of stock-based awards requires the use of highly subjective assumptions, including the fair value of the common stock underlying the award, the expected term of the award and expected stock price volatility.

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

The Company has no history of paying dividends. Additionally, as of each of the grant dates, there was no expectation that the Company would pay dividends over the expected life of the options. The expected life of the awards is estimated using historical data and management's expectations. Because there was no public market for the Company's common stock prior to the Company's initial public offering, management lacked company-specific historical and implied volatility information. Therefore, estimates of expected stock volatility were based on that of publicly traded peer companies, and it is expected that the Company will continue to use this methodology until such time as there is adequate historical data regarding the volatility of the Company's publicly traded stock price.

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

The Company also accounts for equity instruments issued to non-employee directors and consultants at fair value. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the nine months ended September 30, 2013 or during the year ended December 31, 2012.

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, accounts and notes receivable, interest rate swaps, accounts payable, accrued expenses, equity-based liabilities and short- and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of September 30, 2013, the carrying value of the Company's fixed-rate long-term debt exceeds its fair value by approximately \$2,613,138. This is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

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.

Derivative Financial Instruments

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

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

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. During 2007, the Company entered into two fifteen-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 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 \$13,080,607 and \$3,256,395, 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. Accordingly, the Company recognized the change in fair value of these derivatives in the condensed consolidated statements of income prior to April 1, 2010, and in the condensed consolidated statements of comprehensive income thereafter. Cash flows from derivative instruments were reported as operating activities in the condensed consolidated statements of cash flows.

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 \$27,900,000 variable rate note at a fixed interest rate of 6.99% and expires in December 2024. This swap was not designated as a hedge until March 2013.

In July 2011, the Company entered into a five-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$38,571,429 variable rate note at a fixed interest rate of 1.965% and expires in June 2016.

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 \$16,750,000 variable rate note at a fixed interest rate of 1.71%. This notional amount increased to \$42,247,327 on September 30, 2013 and expires in March 2020.

In October 2012, the Company also entered into two eight-year forward starting interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover an initial notional amount of \$25,377,063 variable rate note at a fixed interest rate of 3.70%, with an effective date of March 31, 2020, and expires in June 2028.

Following its entry into new interest rate swaps during the fourth quarter of 2012, the Company conducted a review of its portfolio of eight swaps. As a result of that review, the Company determined that the March 2010 interest rate swap does not qualify for hedge accounting because the Company inappropriately applied the "short cut" method to evaluate this swap for hedge accounting purposes from the date of inception. Accordingly, the change in the fair value of this interest rate swap derivative is required to be recognized as a component of earnings for the periods commencing in March 2010. The accounting error has no effect on cash flows from operating, investing or financing activities or on the Company's debt covenant calculations. The unrealized gain or loss associated with the changes in fair value of this interest rate swap derivative is recorded as other expenses, net in the condensed consolidated statements of income. See also Restatement above.

See Note 11 for additional information on the Company's derivative instruments.

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Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
		(Restated)		(Restated)
Basic and diluted net income	\$4,545,117	\$6,712,121	\$840,294	\$13,266,535
Basic weighted-average shares outstanding	45,621,552	44,788,160	45,472,517	44,492,509
Effect of dilutive securities:				
Preferred stock	—	—	—	—
Stock options	983,808	1,459,079	917,951	1,517,629
Diluted weighted-average shares outstanding	46,605,360	46,247,239	46,390,468	46,010,138

For the three and nine months ended September 30, 2013, the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares as the effect would be anti-dilutive was 1,813,431 and 1,837,791, respectively. For the three and nine months ended September 30, 2012, the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares as the effect would be anti-dilutive was 691,688.

Business Segments

The Company reports four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. The other U.S. regions segment is an aggregation of four regions: northeast U.S., southeast U.S., southwest U.S. and northwest U.S. These regions have similar economic characteristics — in particular, expected and actual gross profit margins. In addition, they sell products and services of a similar nature, serve similar types of customers and use similar methods to distribute their products and services. Accordingly, these four regions meet the aggregation criteria set forth in ASC 280, Segment Reporting. The "all other" category includes activities, such as certain O&M and sales of renewable energy and certain other renewable energy products, that are managed centrally at the Company's corporate headquarters. It also includes all amortization of intangible assets and all corporate operating expenses — salaries and benefits, project development costs and general, administrative and other — not specifically allocated to the segments. For the three months ended September 30, 2013 and 2012, unallocated corporate expenses were \$10,429,443 and \$11,244,873, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2013 and 2012, was \$3,353,990 and \$6,311,328, respectively. For the nine months ended September 30, 2013 and 2012, unallocated corporate expenses were \$33,740,196 and \$33,899,622, respectively. Income before taxes and unallocated corporate expenses for all other for the nine months ended September 30, 2013 and 2012, was \$14,017,019 and \$15,082,850, respectively. See Note 12 for additional disclosures.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward with certain

exceptions, in which case such an unrecognized tax benefit should be presented in the financial statements as a liability. The amendments in this ASU do not require new recurring disclosures and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

3. BUSINESS ACQUISITIONS AND RELATED TRANSACTIONS

In June 2013, the Company acquired ESP, comprising two energy management consulting companies and located in Castleford, United Kingdom. The Company made an initial cash payment of \$8,829,213 to acquire all of the outstanding stock

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

of the ESP companies. The purchase price is subject to post-closing adjustments for working capital and for certain indemnity obligations of the selling stockholders. The Company deposited approximately \$777,710 of the initial cash payment with a third-party escrow agent as security for these matters.

In February 2013, the Company acquired substantially all of the assets of Ennovate Corporation, an energy service company active throughout Colorado, Nebraska, Kansas, Montana and Wyoming, serving customers that include schools, higher education facilities, municipalities and counties. The Company made an initial cash payment of approximately \$1,800,000 to acquire these assets. The purchase price is subject to post-closing adjustments for working capital and for certain indemnity obligations of the seller. The Company deposited approximately \$1,200,000 of the initial cash payment with a third-party escrow agent as security for these matters.

In July 2012, the Company's wholly owned subsidiary Ameresco Canada Inc. acquired FAME, a privately held company offering infrastructure asset management solutions serving both public and private sector customers primarily in western Canada. The Company made a cash payment of \$4,486,950 to acquire all of the outstanding stock of FAME. The Company deposited approximately \$900,000 of the purchase price with a third-party escrow agent as security for the selling stockholders' indemnification obligations under the terms of the acquisition agreement.

The Company's acquisitions in 2013 and 2012 were accounted for 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 acquired has been recorded as goodwill. Intangible assets identified have been recorded and are being amortized over periods ranging from one to fourteen years. See Note 4 for additional information.

	2013		2012
	ESP	Ennovate	FAME
Cash	\$ 1,291,697	\$—	\$809,557
Accounts receivable and accounts receivable retainage	360,924	445,769	320,997
Costs and estimated earnings in excess of billings	546,608	110,987	—
Prepaid expenses and other current assets	—	1,710	107,715
Property and equipment and project assets	75,054	62,898	43,115
Goodwill	5,089,049	921,128	1,886,945
Intangible assets	3,087,509	610,000	2,099,990
Other assets	—	—	100
Accounts payable	(47,625)	(313,976)	(5,713)
Accrued liabilities	(606,938)	—	(617,731)
Billings in excess of cost and estimated earnings	—	(30,431)	(158,025)
Other liabilities	(967,065)	—	—
Purchase price	\$8,829,213	\$1,808,085	\$4,486,950
Total, net of cash received	\$7,537,516	\$1,808,085	\$3,677,393
Total fair value of consideration	\$8,829,213	\$1,808,085	\$4,486,950

The allocation of the purchase price for each of the 2013 acquisitions is preliminary, based on management's current best estimates, and subject to revision.

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 condensed consolidated statements of income, condensed consolidated statements of comprehensive income and condensed consolidated statements of cash flows.

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4. GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill balances included in total assets by segment. There were two acquisitions during the nine months ended September 30, 2013. Goodwill consisted of the following at September 30, 2013 and December 31, 2012:

	December 31, 2012	Acquisitions	Foreign Currency Translation and Other Adjustments	September 30, 2013
U.S. Federal	\$3,374,967	\$—	\$—	\$3,374,967
Central U.S. Region	1,972,415	921,128	—	2,893,543
Other U.S. Regions	21,736,140	—	—	21,736,140
Canada	3,827,112	—	429,958	4,257,070
All Other	18,057,756	5,089,049	206,612	23,353,417
Total	\$48,968,390	\$6,010,177	\$636,570	\$55,615,137

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 fourteen years, as defined by the nature of the respective intangible asset. The following table presents intangible asset balances included in total assets by segment. There were two acquisitions during the nine months ended September 30, 2013. Intangible assets, net, consisted of the following as of September 30, 2013 and December 31, 2012:

	December 31, 2012	Acquisitions	2013 Amortization	Foreign Currency Translation	September 30, 2013
Central U.S. Region:					
Customer contracts	\$—	\$62,000	\$(46,546)	) \$—	\$15,454
Customer relationships	—	288,000	(57,897)	) —	230,103
Non-compete agreements	—	260,000	(96,265)	) —	163,735
Other U.S. Regions:					
Customer relationships	2,138,969	—	(740,962)	) —	1,398,007
Non-compete agreements	843,235	—	(319,753)	) —	523,482
Technology	148,662	—	(38,052)	) —	110,610
Canada:					
Customer contracts	634,389	—	(150,505)	) (24,274)	) 459,610
Customer relationships	305,477	—	(32,901)	) (5,306)	) 267,270
Non-compete agreements	211,144	—	(83,947)	) (13,538)	) 113,659
Technology	590,366	—	(110,031)	) (17,745)	) 462,590
Trade names	70,189	—	(7,691)	) (1,240)	) 61,258
All Other:					
Customer contracts	1,308,710	1,245,891	(755,994)	) 46,570	1,845,177
Customer relationships	1,916,334	1,420,099	(318,476)	) 53,082	3,071,039
Non-compete agreements	385,916	421,519	(145,966)	) 15,756	677,225
Technology	933,768	—	(266,525)	) —	667,243
Trade names	255,719	—	(85,437)	) —	170,282
Total	\$9,742,878	\$3,697,509	\$(3,256,948)	) \$53,305	\$10,236,744

Amortization expense for the three months ended September 30, 2013 and 2012 related to customer contracts was \$499,112 and \$400,084, respectively, and is included in energy efficiency expenses in the condensed consolidated statements of income. Amortization expense for the nine months ended September 30, 2013 and 2012 related to customer contracts was

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

\$953,045 and \$2,033,797, respectively, and is included in energy efficiency expenses in the condensed consolidated statements of income. Amortization expense for the three months ended September 30, 2013 and 2012 related to customer relationships, non-compete agreements, technology and trade names was \$968,761 and \$712,949, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of income. Amortization expense for the nine months ended September 30, 2013 and 2012 related to customer relationships, non-compete agreements, technology and trade names was \$2,303,903 and \$2,050,258, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of income.

5. INCOME TAXES

The provision for income taxes was \$1,447,486 and \$2,683,936, for the three months ended September 30, 2013 and 2012, respectively. The provision for income taxes was \$247,747 and \$5,292,453, for the nine months ended September 30, 2013 and 2012, respectively. The estimated 2013 effective tax rate changed to 24.2% for the three months ended September 30, 2013 from a 28.6% estimated annual effective tax rate for the three months ended September 30, 2012. The estimated 2013 effective tax rate changed to 22.8% for the nine months ended September 30, 2013 from a 28.5% estimated annual effective tax rate for the nine months ended September 30, 2012.

At September 30, 2013 and December 31, 2012, the Company had approximately \$4,900,000 of total gross unrecognized tax benefits. Of the total gross unrecognized tax benefits as of September 30, 2013 and December 31, 2012, approximately \$3,400,000 (net of the federal benefit on state amounts) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

6. 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 stock awards under the 2000 Plan.

The Company's 2010 Stock Incentive Plan (the "2010 Plan"), which became effective upon the closing of the Company's initial public offering, 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, 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 September 30, 2013, the Company had granted options to purchase 1,527,504 shares of Class A common stock under the 2010 Plan.

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 will grant no further stock options or restricted stock awards under the 2000 Plan. The Company has also granted stock options to certain employees and directors under the 2010 Plan. At September 30, 2013, 8,566,927 shares were available for grant under the 2010 Plan. The following table summarizes the collective activity under the 2000 Plan and the 2010 Plan:

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	Number of Options	Weighted-Average Exercise Price
Outstanding at December 31, 2012	4,778,143	\$ 6.794
Granted	563,360	9.036
Exercised	(507,919)	3.300
Forfeited	(100,206)	11.810
Outstanding at September 30, 2013	4,733,378	\$ 7.329
Options exercisable at September 30, 2013	3,193,796	\$ 5.847
Expected to vest at September 30, 2013	1,520,676	\$ 10.420
Options exercisable at December 31, 2012	3,309,722	\$ 4.986

The weighted-average remaining contractual life of all options expected to vest at September 30, 2013 was 8.49 years.
The total intrinsic value of options exercised during the nine months ended September 30, 2013 was \$2,855,548.

The following table summarizes information about stock options outstanding at September 30, 2013:

Related Plan	Exercise Price	Outstanding Options		Exercisable Options		
		Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2000 Plan	\$ 1.875	100,000	0.04	\$ 1.875	100,000	\$ 1.875
2000 Plan	2.750	391,731	0.75	2.750	391,731	2.750
2000 Plan	3.000	13,600	1.32	3.000	13,600	3.000
2000 Plan	3.250	583,144	2.44	3.250	583,144	3.250
2000 Plan	3.410	446,562	3.30	3.410	446,562	3.410
2000 Plan	4.220	214,050	3.92	4.220	214,050	4.220
2000 Plan	6.055	966,500	5.75	6.055	796,100	6.055
2010 Plan	7.150	30,000	9.56	7.150	—	7.150
2010 Plan	8.390	50,000	9.66	8.390	—	8.390
2010 Plan	8.480	100,000	9.94	8.480	—	8.480
2010 Plan	8.860	24,360	9.69	8.860	—	8.860
2010 Plan	9.450	359,000	9.81	9.450	—	9.450
2010 Plan	10.750	50,000	8.67	10.750	10,000	10.750
2010 Plan	10.950	140,000	7.96	10.950	72,000	10.950
2010 Plan	11.630	155,093	8.71	11.630	31,009	11.630
2010 Plan	11.980	449,650	8.57	11.980	89,930	11.980
2000 Plan	13.045	571,000	6.57	13.045	410,200	13.045
2010 Plan	14.810	60,000	7.65	14.810	24,000	14.810
2010 Plan	16.290	28,688	7.32	16.290	11,470	16.290
		4,733,378			3,193,796	

During the nine months ended September 30, 2013, a total of 507,919 shares were issued upon the exercise of options under the 2000 Plan at an average price of \$3.300 per share. Cash received from option exercises under all stock-based payment arrangements for the nine months ended September 30, 2013 and 2012 was \$1,676,046 and \$3,016,256, respectively.

Under the 2000 Plan and the 2010 Plan, all options expire if not exercised within ten years after the grant date. Historically, options generally provided for vesting over five years, with 20% vesting on the first anniversary of the grant date and five percent vesting every three months thereafter. During 2011, the Company began awarding options

generally providing for

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vesting over five years, with 20% vesting on each of the first five anniversaries of the grant date. 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. 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 2013 and 2012:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Future dividends	\$ -	\$ -
Risk-free interest rate	1.03%-2.18%	0.82%-1.25%
Expected volatility	34%-38%	32%
Expected life	6.0-6.5 years	6.5 years

The Company will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to the 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. In addition, any changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period that the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the accompanying condensed consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the accompanying condensed consolidated financial statements. These expenses will affect the direct expenses, salaries and benefits and project development costs expenses. For the three months ended September 30, 2013 and 2012, the Company recorded stock-based compensation expense of \$789,416 and \$853,866, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2013 and 2012, the Company recorded stock-based compensation expense of \$2,125,276 and \$2,527,926, respectively, in connection with stock-based payment awards. The compensation expense is allocated between direct expenses, salaries and benefits and project development costs in the accompanying condensed consolidated statements of income based on the salaries and work assignments of the employees holding the options. As of September 30, 2013, there was \$6,612,695 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.93 years.

7. COMMITMENTS AND CONTINGENCIES**Legal Proceedings**

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

Solar Tariff Contingency

In October 2012, the U.S. Department of Commerce (“Commerce”) announced its final determination in the anti-dumping and countervailing duty 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 anti-

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

dumping duty of 249.96%, in the case of the Company, and increased its countervailing duty from 3.61% to 15.24%; both duties are applied to the value of imports of solar modules containing PRC cells. Under Commerce's determination, the anti-dumping and countervailing duties both were to apply retroactively 90 days from the date each preliminary decision was published to February 25, 2012 and December 21, 2011, respectively. On November 7, 2012, the International Trade Commission announced its final determination upholding the duties, but eliminating the retroactive periods. Since early 2012, the Company has been importing solar modules containing PRC cells, though it ceased doing so in July 2012 in response to these duties. The Company is monitoring and evaluating its alternatives for obtaining a separate and reduced anti-dumping duty rate. Depending on whether the maximum anti-dumping duty rate of 249.96% or some lower rate applies, the Company may be liable for combined duties of up to approximately \$3.3 million.

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

Commitments as a Result of Acquisitions

Related to the Company's acquisition of FAME in the third quarter of 2012 (see Note 3), the former stockholders of FAME, who are now employees of the Company, may be entitled to receive up to an estimated \$865,000 in additional consideration if FAME meets certain financial performance milestones. As of September 30, 2013 the Company had not recorded any accrual based on the valuation of the current commitment.

Related to the Company's acquisition of Applied Energy Group, Inc., ("AEG") in the third quarter of 2011, the former stockholders of AEG, who are now employees of the Company, may be entitled to receive up to \$5,000,000 in additional consideration if AEG meets certain financial performance milestones. As of September 30, 2013 the Company had recorded \$1,075,112 as a liability for the valuation of the current estimate.

8. GEOGRAPHIC INFORMATION

The Company attributes revenue to customers based on the location of the customer. The composition of the Company's long-lived assets at September 30, 2013 and December 31, 2012 and revenues from sales to unaffiliated customers for the three and nine months ended September 30, 2013 and 2012 between those in the United States and those in other locations, is as follows:

			September 30, 2013	December 31, 2012
Long-lived assets:				
United States			\$218,445,196	\$198,485,075
Canada			17,927,670	18,143,844
Other			89,782	33,281
			\$236,462,648	\$216,662,200
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue:				
United States	\$139,999,757	\$146,197,073	\$345,311,411	\$424,454,798
Canada	20,059,253	16,141,540	49,844,725	44,433,346
Other	1,589,803	1,567,592	2,880,894	5,691,335
	\$161,648,813	\$163,906,205	\$398,037,030	\$474,579,479

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

9. OTHER EXPENSES, NET

Other expenses, net, consisted of the following items for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012 (Restated)	September 30, 2013	2012 (Restated)
Unrealized (gain) loss from derivatives	\$(124,980)	59,061	\$(1,378,039)	\$178,813
Interest expense, net of interest income	1,196,089	1,158,550	\$3,029,731	\$3,287,803
Amortization of deferred financing fees	518,251	95,667	850,713	367,145
	\$1,589,360	\$1,313,278	\$2,502,405	\$3,833,761

10. FAIR VALUE MEASUREMENT

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

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

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

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

The following table presents the input level used to determine the fair values of the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	Level	Fair Value as of	
		September 30, 2013	December 31, 2012
Assets:			
Interest rate swap instruments	2	\$903,415	\$—
Liabilities:			
Interest rate swap instruments	2	4,865,116	\$8,214,582
Contingent consideration	3	1,147,408	1,147,408
Total liabilities		\$6,012,524	\$9,361,990

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 the contingent consideration was estimated using probability assessments of expected future cash flows over the period in which the obligation is to be settled and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation. The fair value of the contingent consideration is adjusted based on an updated assessment of the probability of achievement of the performance metrics and the discount factor reflecting the passage of time.

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

The fair value of financial instruments is determined by reference to observable market data and other valuation techniques as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At September 30, 2013, 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 three month period ended September 30, 2013. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt are as follows:

	As of September 30, 2013		As of December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	\$60,933,277	\$63,546,415	\$66,817,614	\$70,539,703

The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. The Company determined the fair value used in its annual impairment analysis with its own discounted cash flow analysis. The Company has determined the inputs used in such analysis as Level 3 inputs. The Company did not record any impairment charges on goodwill or other intangible assets as no significant events requiring non-financial assets and liabilities to be measured at fair value occurred for the nine months ended September 30, 2013. The Company recorded an impairment charge on goodwill of \$1,016,325 for the year ended December 31, 2012.

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At September 30, 2013 and December 31, 2012, the following table presents information about the fair value amounts of the Company's derivative instruments:

	Derivatives as of September 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other assets	\$903,415	Other assets	\$—
Interest rate swap contracts	Other liabilities	\$4,865,116	Other liabilities	\$5,590,519
Derivatives Not Designated as Hedging Instruments:				
Interest rate swap contracts	Other liabilities	\$—	Other liabilities	\$2,624,063

All but one derivative were designated as hedging instruments for the year ended December 31, 2012 (see Note 2).

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

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

	Location of (Gain) Loss Recognized in Income	Amount of (Gain) Loss Recognized in Income for the Three Months Ended September 30,		Amount of (Gain) Loss Recognized in Income for the Nine Months Ended September 30,	
		2013	2012	2013	2012
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	\$(124,980)	\$—	\$(1,111,625)	\$—
Derivatives Not Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	\$—	\$59,061	\$(266,414)	\$178,813
				For the Nine Months Ended September 30, 2013	
				Gain Recognized in Accumulated Other Comprehensive Income	Interest Expense Reclassified from Accumulated Other Comprehensive Income
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts				\$2,620,900	\$1,538,930

12. BUSINESS SEGMENT INFORMATION

The Company reports four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. The other U.S. regions segment is an aggregation of four regions: northeast U.S., southeast U.S., southwest U.S. and northwest U.S. These regions have similar economic characteristics — in particular, expected and actual gross profit margins. In addition, they sell products and services of a similar nature, serve similar types of customers and use similar methods to distribute their products and services. Accordingly, these four regions meet the aggregation criteria set forth in ASC 280, Segment Reporting. The “all other” category includes activities, such as certain O&M and sales of renewable energy and certain other renewable energy products, that are managed centrally at the Company's corporate headquarters. It also includes all amortization of intangible assets and all corporate operating expenses — salaries and benefits, project development costs, and general, administrative and other — not specifically allocated to the segments. The Company does not allocate any indirect expenses to the segments. For the three months ended September 30, 2013 and 2012, unallocated corporate expenses were \$10,429,443 and \$11,244,873, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2013 and 2012 was \$3,353,990 and \$6,311,328, respectively. For the nine months ended September 30, 2013 and 2012, unallocated corporate expenses were \$33,740,196 and \$33,899,622, respectively. Income before taxes and unallocated corporate expenses for all other for the nine months ended September 30, 2013 and 2012 was \$14,017,019 and \$15,082,850, respectively. The accounting policies are the same as those described in the summary of significant accounting policies (see Note 2).

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AMERESCO, INC.

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

The Company's business segments had the following operational results for the three months ended September 30, 2013 and 2012:

Ameresco, Inc. and Subsidiaries

Segment Reporting

Three Months Ending September 30, 2013

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$19,259,566	\$23,735,134	\$60,673,050	\$20,059,253	\$37,921,810	\$161,648,813
Interest income	\$—	\$—	\$—	\$8,657	\$595	\$9,252
Interest expense	\$—	\$—	\$—	\$335,326	\$870,015	\$1,205,341
Depreciation and amortization of intangible assets	\$117,480	\$161,300	\$—	\$198,981	\$4,748,553	\$5,226,314
Income (loss) before taxes	\$1,970,868	\$2,320,240	\$8,904,325	\$(127,377)	\$(7,075,453)	\$5,992,603
Total assets	\$41,593,748	\$19,921,894	\$269,954,505	\$52,726,154	\$212,960,144	\$597,156,445
Capital expenditures	\$31,956	\$—	\$424,235	\$831,617	\$3,639,057	\$4,926,865

Ameresco, Inc. and Subsidiaries

Segment Reporting

Three Months Ending September 30, 2012

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other (Restated)	Total (Restated)
Total revenue	\$16,193,420	\$23,954,729	\$67,335,319	\$16,141,540	\$40,281,197	\$163,906,205
Interest income	\$—	\$—	\$—	\$—	\$4,392	\$4,392
Interest expense	\$—	\$—	\$—	\$264,254	\$898,689	\$1,162,943
Depreciation and amortization of intangible assets	\$85,664	\$4,955	\$—	\$149,753	\$4,497,892	\$4,738,264
Income (loss) before taxes	\$2,319,011	\$2,822,955	\$9,040,364	\$147,273	\$(4,933,546)	\$9,396,057
Total assets	\$157,420,358	\$21,676,637	\$278,036,272	\$69,962,338	\$154,603,893	\$681,699,498
Capital expenditures	\$244,672	\$—	\$1,455,735	\$1,281,673	\$9,943,289	\$12,925,369

The Company's business segments had the following operational results for the nine months ended September 30, 2013 and 2012:

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 2013

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$45,196,541	\$54,293,581	\$137,494,639	\$49,844,725	\$111,207,544	\$398,037,030
Interest income	\$—	\$—	\$—	\$34,232	\$166,512	\$200,744
Interest expense	\$—	\$—	\$—	\$1,007,753	\$2,222,722	\$3,230,475
Depreciation and amortization of	\$340,436	\$176,319	\$—	\$584,612	\$14,403,427	\$15,504,794

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intangible assets

Income (loss) before taxes	\$1,851,276	\$3,677,780	\$17,343,529	\$(2,061,367)	\$(19,723,177)	\$1,088,041
Total assets	\$41,593,748	\$19,921,894	\$269,954,505	\$52,726,154	\$212,960,144	\$597,156,445
Capital expenditures	\$398,757	\$72,297	\$1,246,105	\$1,218,312	\$33,570,696	\$36,506,167

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AMERESCO, INC.

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

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 2012

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other (Restated)	Total (Restated)
Total revenue	\$59,382,736	\$66,675,906	\$183,083,818	\$44,407,228	\$121,029,791	\$474,579,479
Interest income	\$—	\$—	\$—	\$2,754	\$10,715	\$13,469
Interest expense	\$—	\$—	\$—	\$503,979	\$2,797,294	\$3,301,273
Depreciation and amortization of intangible assets	\$220,721	\$14,996	\$—	\$350,534	\$13,860,516	\$14,446,767
Income (loss) before taxes	\$5,577,321	\$7,319,844	\$28,213,926	\$(3,735,331)	\$(18,816,772)	\$18,558,988
Total assets	\$157,420,358	\$21,676,637	\$278,036,272	\$69,962,338	\$154,603,893	\$681,699,498
Capital expenditures	\$945,626	\$—	\$2,654,946	\$3,587,951	\$23,978,291	\$31,166,814

13. LONG-TERM DEBT

Variable-Rate Construction and Term Loans

In October 2012, the Company entered into a credit and guaranty agreement with two banks for use in providing limited recourse financing for certain of its landfill gas to energy and Solar PV projects. The credit and guaranty agreement provides for a \$47,234,434 construction-to-term loan credit facility and bears interest at a variable rate. At December 31, 2012, \$37,800,000 was drawn under the construction loans. During 2013, the Company drew an additional \$9,434,434 under construction loans. In May 2013, the Company converted a portion of the construction loans into a term loan in accordance with the loan agreement. At September 30, 2013, \$28,802,118 was outstanding under construction loans and \$17,988,006 was outstanding under the term loan. The weighted average rate for these loans at September 30, 2013 was 3.28%.

Senior Secured Credit Facility - Revolver and Term Loan

On June 30, 2011, the Company amended and restated the credit and security agreement and continues as the sole borrower under the agreement. The amended and restated facility extends and expands the Company's prior facility. The facility consists of a \$60,000,000 revolving credit facility and a \$40,000,000 term loan. The revolving credit facility may be increased up to an additional \$25,000,000 at the Company's option, if the lenders agree. The facility matures on June 30, 2016, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2013, \$28,571,427 was outstanding under the term loan and \$18,000,000 was outstanding under the revolving credit facility. Payments on the term loan are due in quarterly principal installments of \$1,428,571 together with accrued but unpaid interest, with all remaining unpaid principal amounts due June 30, 2016. The obligations under the facility are guaranteed by certain of the Company's subsidiaries and are secured by a lien on all of the assets of the Company other than renewable energy projects that the Company owns and that are financed by others. The agreement contains certain financial covenants. At September 30, 2013 the Company was in compliance with all financial covenants.

14. SUBSEQUENT EVENTS

On November 6, 2013, the Company amended the senior credit facility to reduce the trailing four quarters minimum required EBITDA amount to \$30.0 million from \$40.0 million.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2012 included in our Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013 with the U.S. Securities and Exchange Commission, or SEC. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical fact, including statements that refer to projections regarding our future financial performance, our anticipated growth and trends in our businesses, our future capital needs and capital expenditures; our future market position and competitive changes in the marketplace for our services; our ability to integrate new technologies into our services; our ability to access credit or capital markets; our reliance on subcontractors; potential acquisitions or divestitures; the continued availability of key personnel; and other characterizations of future events or circumstances are forward-looking statements. These statements are often, but not exclusively, identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "target," "project," "predict" or "continue," and similar expressions or variations. These forward-looking statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Risks, uncertainties and factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to do so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

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

We report results under ASC 280, Segment Reporting, for four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. These segments do not include results of other activities, such as certain operations and maintenance, or O&M, and sales of renewable energy and certain other renewable energy products, that are managed centrally at our corporate headquarters, or corporate operating expenses not specifically allocated to the segments. See Note 12 to our unaudited condensed consolidated financial statements appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In addition to organic growth, strategic acquisitions of complementary businesses and assets have been an important part of our historical development. Since inception, we have completed numerous acquisitions, which have enabled us to broaden our service offerings and expand our geographical reach. Our acquisition of the energy services business of Duke Energy in 2002 expanded our geographical reach into Canada and the southeastern United States and enabled us to penetrate the federal government market for energy efficiency projects. The acquisition of the energy services business of Exelon in 2004 expanded our geographical reach into the Midwest. Our acquisition of the energy services business of Northeast Utilities in 2006 substantially grew our capability to provide services for the federal market and in Europe. Our acquisition of Southwestern Photovoltaic in 2007 significantly expanded our offering of solar energy products and services. Our acquisition of energy services company Quantum Engineering and Development, Inc., or

Quantum, in 2010 expanded our geographical reach into the northwest U.S.

We made three acquisitions in 2011. Our acquisition of energy efficiency and demand side management consulting services provider Applied Energy Group, Inc., or AEG, expanded our service offering to utility customers. Our acquisition of APS Energy Services Company, Inc., which we renamed Ameresco Southwest, a company that provides a full range of integrated energy efficiency and renewable energy solutions, strengthened our geographical position in the southwest U.S. Our

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acquisition of the xChangePoint® and energy projects businesses from Energy and Power Solutions, Inc., which we operate as Ameresco Intelligent Systems, or AIS, expanded our service offerings to private sector commercial and industrial customers. AIS offers energy efficiency solutions to customers across North America encompassing the food and beverage, meat, dairy, paper, aerospace, oil and gas and REIT industries.

Our acquisition of infrastructure asset management solutions provider FAME Facility Software Solutions Inc. in 2012 expanded our asset planning consulting and software services offerings and our geographical position in western Canada. Our acquisition of the business of Ennovate Corporation, or Ennovate, in the first quarter of 2013 increased our footprint and penetration in the Rocky Mountain area. Our acquisition of energy management consulting companies The Energy Services Partnership Limited and ESP Response Limited, or together ESP, in the second quarter of 2013 added a local presence in the United Kingdom, expertise and seasoned energy industry professionals to support multi-national customers of our enterprise energy management service offerings.

Energy Savings Performance and Energy Supply Contracts

For our energy efficiency projects, we typically enter into energy savings performance contracts, or 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 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. 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 our 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 enter into long-term contracts to supply the electricity, processed landfill gas, or 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 Item 1A, Risk Factors in our Annual Report on Form 10-K.

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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 debt 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 project 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 project 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.

In addition to project-related debt, we currently maintain a \$100 million senior secured credit facility with a group of commercial banks to finance our working capital needs. See “—Senior Secured Credit Facility—Revolver and Term Loan” below.

Effects of Seasonality

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

Our annual and quarterly financial results are also subject to significant fluctuations as a result of other factors, many of which are outside our control. See “Our 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 our 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. Historically, our sales cycle typically has averaged 12 to 36 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. Historically, awarded projects typically have taken 6 to 12 months to result in a signed contract and thus convert to fully-contracted backlog. It may take longer,

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however, depending upon the size and complexity of the project. Further, at times in the past we have experienced periods during which the portion of the sales cycle for converting awarded project to signed contracts has lengthened. Recently, we have been experiencing an unusually sustained lengthening of conversion times. The weighted average conversion time of an awarded project to a signed contract for contracts signed during the third quarter of 2013 was 18 months. Continued U.S. federal fiscal uncertainty not only has contributed to a lengthening of our sales cycle for U.S. federal projects, but also has adversely affected both municipal and commercial customers across most geographic regions. We have observed among our existing and prospective customer base increased scrutiny of decisions about spending and about incurring debt to finance projects. For example, we have observed increased use of outside consultants and advisors, as well as adoption of additional approval steps, by many of our customers, which has resulted in a lengthening of the sales cycle. We expect this trend to continue in 2013. After the customer and Ameresco agree to the terms of the contract and the contract becomes executed, the project moves to fully-contracted backlog. The contracts reflected in our fully-contracted backlog typically have a construction period of 12 to 24 months and we typically expect to recognize revenue for such contracts over the same period. Fully-contracted backlog begins converting into revenue generated from backlog on a percentage-of-completion basis once construction has commenced. See “We may not recognize all revenue 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 revenue” in Item 1A, Risk Factors in our Annual Report on Form 10-K.

As of September 30, 2013, we had backlog of approximately \$366 million in expected future revenue 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 revenue of an additional \$1.042 billion. As of September 30, 2012, we had fully-contracted backlog of approximately \$318 million in expected future revenue 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 revenue of an additional \$1.143 billion.

Financial Operations Overview

Revenue

We derive revenue from energy efficiency and renewable energy products and services. Our 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. Our renewable energy products and services include: the construction of small-scale plants that produce electricity, gas, heat or cooling from renewable sources of energy and the sale of such electricity, processed LFG, heat or cooling from plants that we own, which, for those plants that we own and operate, we refer to collectively as small scale infrastructure; and the sale and installation of photovoltaic solar energy products and systems, or integrated-PV.

While in any particular quarter a single customer may account for more than ten percent of revenue, for the three and nine months ended September 30, 2013 and 2012, no one customer accounted for more than ten percent of our total revenue.

Direct Expenses and Gross Margin

Direct expenses 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 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 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.

Direct expenses also include O&M 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 several of our 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 direct expense for energy efficiency. For the three months ended September 30, 2013 and 2012, we recorded amortization expense of \$0.5 million and \$0.4 million, respectively, related to customer contracts. For the nine months ended September 30, 2013 and 2012, we recorded amortization expense of \$1.0 million and \$2.0 million, respectively, related to customer contracts.

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Amortization expense related to these intangible assets is included in energy efficiency expenses in the condensed consolidated statements of income.

Gross margin, which is gross profit as a percent of revenue, is affected by a number of factors, including the type of services performed and the geographic region in which the sale is made. 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 revenue 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 revenue for which there is no further corresponding direct expense. 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.

Operating Expenses

Operating expenses consist of salaries and benefits, project development costs, and general, administrative and other expenses.

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, administrative and other 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 three months ended September 30, 2013 and 2012, we recorded amortization expense of \$1.0 million and \$0.7 million, respectively, related to customer relationships, non-compete agreements, technology and trade names. For the nine months ended September 30, 2013 and 2012, we recorded amortization expense of \$2.3 million and \$2.1 million, respectively, related to customer relationships, non-compete agreements, technology and trade names. Amortization expense related to these intangible assets is included in general, administrative and other expenses in the condensed consolidated statements of income.

Other Expenses, Net

Other expenses, net consists primarily of interest income on cash balances, interest expense on borrowings, amortization of deferred financing costs and unrealized gains and losses on derivatives not accounted for as hedges. 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 for Income Taxes

The provision 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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. The most significant estimates with regard to these condensed consolidated financial

statements relate to estimates of final contract profit in accordance with long-term contracts, project development costs, project assets, impairment of goodwill, impairment of long-lived assets, fair value of derivative financial instruments, income taxes and stock-based compensation expense. Such estimates

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

The following are certain critical accounting policies that among others, affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. For a more complete discussion of our critical accounting policies and estimates, please read Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K.

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;

- sale and delivery of photovoltaic, or PV, equipment and other renewable energy products for which we are a distributor, whether under our own brand name or for others; and

- O&M services provided under long-term O&M agreements, as well as 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 revenue 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 revenue associated with contract change orders only when the authorization for the change order has been properly executed and the work has been performed and accepted by the customer.

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 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 revenue 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 revenue from O&M contracts and consulting 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.

Project 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 three months ended September 30, 2013 and 2012 was \$0.6 million and \$0.3 million, respectively. The amount of interest

capitalized for the nine months ended September 30, 2013 and 2012 was \$1.3 million and \$0.7 million, respectively.

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Routine maintenance costs are expensed in the current year's condensed consolidated statements of income to the extent that they do not extend the life of the asset. Major maintenance, upgrades and overhauls are required for certain components of 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 general, administrative and other expenses in the condensed consolidated statements of income.

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. 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.

Derivative Financial Instruments

We account for our interest rate swaps as derivative financial instruments in accordance with the related guidance. Under this guidance, derivatives are carried on our consolidated balance sheet 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 15-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.

During the year ended December 31, 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.

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 amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The 2011 swap covers an initial notional amount of approximately \$38.6 million variable rate note at a fixed interest rate of 1.965% and expires in June 2016.

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 1.71%, 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 3.70%, with an effective date of March 31, 2020, and expires in June 2028.

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

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We recognize all derivatives in our condensed 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 income (expense) in our condensed consolidated statements of income at fair value, and in the condensed consolidated statements of comprehensive income thereafter. Cash flows from these derivative instruments are reported as operating activities on the condensed consolidated statements of cash flows.

The interest rate swap that we entered into in March 2010 was a floating-to-fixed interest rate swap. Effective March 29, 2013, we have designated the March 2010 interest rate swap as a hedge using the “long-haul” method. See Note 2, Restatement, of “Notes to Condensed Consolidated Financial Statements” appearing in Item 1 of this Form 10-Q.

The interest rate swaps that we entered into during 2011 and 2012 qualify, and have been designated, 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.

Business Segments

We report four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. The other U.S. regions segment is an aggregation of four regions: northeast U.S., southeast U.S., southwest U.S. and northwest U.S. These regions have similar economic characteristics — in particular, expected and actual gross profit margins. In addition, they sell products and services of a similar nature, serve similar types of customers and use similar methods to distribute their products and services.

Accordingly, these four regions meet the aggregation criteria set forth in ASC 280. The “all other” category includes activities, such as certain O&M and sales of renewable energy and certain other renewable energy products, that are managed centrally at our corporate headquarters. It also includes all amortization of intangible assets and all corporate operating expenses — salaries and benefits, project development costs, and general, administrative and other — not specifically allocated to the segments. We do not allocate any indirect expenses to the segments.

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Results of Operations

Three Months Ended September 30, 2013 and 2012

The following table sets forth certain financial data from the condensed consolidated statements of income, that data expressed as a percentage of revenue and percentage changes in that data for the three months ended September 30, 2013 and 2012:

(in \$'000s)	Three Months Ended September 30,					% change ((a-b)/b)
	2013 (a)	% of Revenue	2012 (b) (Restated)	% of Revenue		
Revenue:						
Energy efficiency revenue	\$ 108,872	67.4 %	\$ 108,419	66.1 %	0.4 %	
Renewable energy revenue	52,776	32.6 %	55,487	33.9 %	(4.9)%	
	161,648	100.0 %	163,906	100.0 %	(1.4)%	
Direct expenses:						
Energy efficiency expenses	88,500		87,899		0.7 %	
Renewable energy expenses	43,085					