

Hannon Armstrong Sustainable Infrastructure Capital, Inc.
Form 10-Q
May 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 001-35877

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Maryland
**(State or other jurisdiction of
incorporation or organization)**

46-1347456
**(I.R.S. Employer
Identification No.)**

**1906 Towne Centre Blvd, Suite 370 Annapolis,
Maryland**
(Address of principal executive offices)

21401
(Zip code)

(410) 571-9860

(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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 38,950,289 shares of common stock, par value \$0.01 per share, outstanding as of May 6, 2016 (which includes 1,384,663 shares of unvested restricted common stock).

Table of Contents

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Quarterly Report on Form 10-Q (Form 10-Q) within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, we intend to identify forward-looking statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements are contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (our 2015 Form 10-K) that was filed with the U.S. Securities and Exchange Commission (the SEC), and include risks discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operation of this Form 10-Q and in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

our expected returns and performance of our investments;

the state of government legislation, regulation and policies that support energy efficiency, renewable energy and sustainable infrastructure projects and that enhance the economic feasibility of energy efficiency, renewable energy and sustainable infrastructure projects and the general market demands for such projects;

market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;

our business and investment strategy;

availability of opportunities to finance energy efficiency, renewable energy and sustainable infrastructure projects and our ability to complete potential new opportunities in our pipeline;

our relationships with originators, investors, market intermediaries and professional advisers;

competition from other providers of financing;

our or any other companies' projected operating results;

actions and initiatives of the U.S. federal, state and local governments and changes to U.S. federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;

the state of the U.S. economy generally or in specific geographic regions, states or municipalities; economic trends and economic recoveries;

our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;

general volatility of the securities markets in which we participate;

changes in the value of our assets, our portfolio of assets and our investment and underwriting process;

interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;

changes in interest rates and the market value of our assets and target assets;

changes in commodity prices;

Table of Contents

effects of hedging instruments on our assets;

rates of default or decreased recovery rates on our assets;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

impact of and changes in accounting guidance and similar matters;

our ability to maintain our qualification, as a real estate investment trust for U.S. federal income tax purposes (a REIT);

our ability to maintain our exception from registration under the Investment Company Act of 1940, as amended (the 1940 Act);

availability of qualified personnel;

estimates relating to our ability to make distributions to our stockholders in the future; and

our understanding of our competition.

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this Form 10-Q or our 2015 Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The following discussion is a supplement to and should be read in conjunction with our 2015 Form 10-K.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART 1 FINANCIAL INFORMATION</u>	1
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	40
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults Upon Senior Securities</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41
<u>SIGNATURES</u>	42

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2016 and DECEMBER 31, 2015****(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)****(UNAUDITED)**

	March 31, 2016	December 31, 2015
Assets		
Financing receivables	\$ 818,789	\$ 783,967
Financing receivables held-for-sale	42,041	60,376
Investments available-for-sale	36,733	29,017
Real estate	131,695	128,769
Real estate related intangible assets	31,032	26,930
Equity method investments in affiliates	304,180	318,769
Cash and cash equivalents	26,585	42,645
Other assets	85,922	79,148
Total Assets	\$ 1,476,977	\$ 1,469,621
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable, accrued expenses and other	\$ 22,899	\$ 17,875
Deferred funding obligations	62,541	108,499
Credit facility	321,944	247,350
Asset-backed nonrecourse debt (secured by assets of \$701 million and \$718 million, respectively)	551,691	563,189
Other nonrecourse debt (secured by financing receivables of \$91 million and \$97 million, respectively)	94,231	100,602
Total Liabilities	1,053,306	1,037,515
Stockholders Equity:		
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized, 37,030,467 and 37,010,603 shares issued and outstanding, respectively	370	370
Additional paid in capital	485,756	482,431

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Retained deficit	(61,202)	(52,701)
Accumulated other comprehensive loss	(5,091)	(1,905)
Non-controlling interest	3,838	3,911
Total Stockholders Equity	423,671	432,106
Total Liabilities and Stockholders Equity	\$ 1,476,977	\$ 1,469,621

See accompanying notes.

- 1 -

Table of Contents**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)****(UNAUDITED)**

	For the Three Months Ended March 31,	
	2016	2015
Revenue:		
Interest income, financing receivables	\$ 11,489	\$ 8,328
Interest income, investments	375	396
Rental income	2,815	2,088
Gain on sale of receivables and investments	5,502	2,870
Fee income	302	226
Total Revenue	20,483	13,908
Investment interest expense	(11,275)	(6,148)
Provision for credit losses		
Total Revenue, net of investment interest expense and provision	9,208	7,760
Compensation and benefits	(4,418)	(3,851)
General and administrative	(1,934)	(1,505)
Other, net	118	(227)
Income (loss) from equity method investments in affiliates	270	(53)
Other Expenses, net	(5,964)	(5,636)
Net income before income taxes	3,244	2,124
Income tax (expense) benefit	(47)	23
Net Income	\$ 3,197	\$ 2,147
Net income attributable to non-controlling interest holders	28	25
Net Income Attributable to Controlling Shareholders	\$ 3,169	\$ 2,122
Basic earnings per common share	\$ 0.07	\$ 0.07
Diluted earnings per common share	\$ 0.07	\$ 0.07
Weighted average common shares outstanding basic	37,016,210	26,386,080
Weighted average common shares outstanding diluted	37,016,210	26,386,080

See accompanying notes.

Table of Contents

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March	
	31,	
	2016	2015
Net Income	\$ 3,197	\$ 2,147
Unrealized (loss)/gain on interest rate swaps, net of taxes benefit/(provision) of \$0.0 million in 2016	(3,482)	
Unrealized gain on available-for-sale securities, net of taxes benefit/(provision) of \$0.0 million in 2016 and (\$0.1) million in 2015	272	81
Comprehensive (loss) income	\$ (13)	\$ 2,228
Less: Comprehensive income attributable to non-controlling interests holders		26
Comprehensive (Loss) Income Attributable to Controlling Shareholders	\$ (13)	\$ 2,202

See accompanying notes.

Table of Contents**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(DOLLARS IN THOUSANDS)****(UNAUDITED)**

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 3,197	\$ 2,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,786	764
Equity-based compensation	2,008	2,201
From equity method investments in affiliates	220	53
Gain on sale of financing receivables and investments	(4,314)	(3,255)
Changes in financing receivables held-for-sale	5,382	14,907
Changes in accounts payable and accrued expenses	2,776	(1,269)
Other	(1,189)	(575)
Net cash provided by operating activities	9,866	14,973
Cash flows from investing activities		
Purchases of financing receivables	(76,142)	(19,565)
Principal collections from financing receivables	8,662	39,185
Proceeds from sales of financing receivables	29,127	12,851
Purchases of investments	(12,864)	(5,000)
Principal collections from investments	677	7,607
Proceeds from sales of investments		2,280
Purchases of real estate	(7,327)	(16,540)
Investments in equity method affiliates, net	(1,622)	
Distributions received from equity method affiliates	15,991	6,343
Other	(314)	(2,871)
Net cash (used in) provided by investing activities	(43,812)	24,290
Cash flows from financing activities		
Proceeds from credit facility	90,800	35,000
Principal payments on credit facility	(16,328)	(29,613)
Proceeds from nonrecourse debt		11,626
Principal payments on nonrecourse debt	(18,509)	(13,764)
Payments on deferred funding obligations	(25,594)	(27,823)
Payments of dividends and distributions	(11,566)	(7,196)
Other	(917)	(236)

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Net cash provided by (used in) financing activities	17,886	(32,006)
(Decrease) increase in cash and cash equivalents	(16,060)	7,257
Cash and cash equivalents at beginning of period	42,645	58,199
Cash and cash equivalents at end of period	\$ 26,585	\$ 65,456
Interest paid	\$ 9,319	\$ 4,653

See accompanying notes.

- 4 -

Table of Contents

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2016

1. The Company

Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the Company) provides debt and equity to the energy efficiency and renewable energy markets. The Company and its subsidiaries are hereafter referred to as we, us, or our. We refer to the financings that we hold on our balance sheet as our Portfolio. Our Portfolio may include:

Financing Receivables, such as project loans, receivables and direct financing leases,

Investments, such as debt and equity securities,

Real Estate, such as land or other physical assets and related intangible assets used in renewable energy projects, and

Equity Investments in unconsolidated affiliates, such as projects where we hold a non-consolidated equity interest in a project.

We finance our business through cash on hand, borrowings under our credit facility and debt transactions, and various asset-backed securitization transactions and equity issuances. We also generate fee income through asset-backed securitizations, by providing broker/dealer services and by servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with financing sustainable infrastructure receivables for specific long term contracts.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol HASI. We have qualified as a REIT and also intend to operate our business in a manner that will continue to permit us to maintain our exception from registration as an investment company under the Investment Company Act of 1940, as amended. We operate our business through, and serve as the sole general partner of, our operating partnership subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P, (the Operating Partnership), which was formed to acquire and directly or indirectly own our assets.

Investments in Equity Method Affiliates

We have made several minority interest investments in wind projects operated by various wind energy companies through limited liability entities with an affiliate of JPMorgan Chase & Co (JPMorgan), an affiliate of Invenergy LLC (Invenergy) and Bluestem Creston Ridge, LLC (Bluestem). The following table sets forth certain information related to our equity method investments.

Date	Transaction	Investment	Partner
		(dollars in millions)	
October 2014	Strong Upwind Holdings I, LLC	\$ 141	JPMorgan
April 2015	Strong Upwind Holdings II, LLC	\$ 36	JPMorgan
August 2015	Creston Ridge Management, LLC	\$ 14	Bluestem
December 2015	Strong Upwind Holdings III, LLC	\$ 84	JPMorgan
December 2015	Buckeye Wind Energy Class B Holdings LLC	\$ 71	Invenergy

Through these five equity method investments, we indirectly own minority interests in six limited liability holding companies that own twelve operating wind projects. See Note 2 for our accounting treatment of these investments and Note 13 for the aggregate financial position and results of operations of the significant holding companies.

Table of Contents

2. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements reflect all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows for the periods presented. The preparation of financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. The results of operations for the per