Ameresco, Inc.
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from _____ to _____.
Commission File Number: 001-34811
Ameresco, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-3512838
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
111 Speen Street, Suite 410 Framingham, Massachusetts	01701
(Address of Principal Executive Offices)	(Zip Code)

(508) 661-2200
(Registrant's Telephone Number, Including Area Code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
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 þ No o
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 o	Accelerated Filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
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 May 2, 2014
Class A Common Stock, $0.0001 par value per share	28,017,617
Class B Common Stock, $0.0001 par value per share	18,000,000

AMERESCO, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014
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PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
AMERESCO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$20,740	$17,171
Restricted cash	15,815	15,497
Accounts receivable, net	76,420	86,008
Accounts receivable retainage	15,250	21,019
Costs and estimated earnings in excess of billings	49,754	71,204
Inventory, net	9,231	10,257
Prepaid expenses and other current assets	8,815	10,177
Income tax receivable	8,321	3,971
Deferred income taxes	4,843	4,843
Project development costs	11,161	9,686
Total current assets	220,350	249,833
Federal ESPC receivable	47,345	44,297
Property and equipment, net	8,254	8,699
Project assets, net	214,639	210,744
Deferred financing fees, net	5,301	5,320
Goodwill	53,659	53,074
Intangible assets, net	8,483	10,253
Other assets	23,066	22,440
Total assets	$581,097	$604,660
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$13,734	$12,974
Accounts payable	65,598	88,733
Accrued expenses and other current liabilities	12,243	11,947
Billings in excess of cost and estimated earnings	13,723	16,933
Income taxes payable	—	615
Total current liabilities	105,298	131,202
Long-term debt, less current portion	107,476	103,222
Federal ESPC liabilities	47,820	44,297
Deferred income taxes	14,707	11,318
Deferred grant income	8,041	8,163
Other liabilities	29,574	29,652
Commitments and contingencies (Note 5)		

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

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AMERESCO, INC.
CONSOLIDATED BALANCE SHEETS — (Continued)
(in thousands, except share and per share amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2014 and December 31, 2013	$—	$—
Class A common stock, $0.0001 par value, 500,000,000 shares authorized, 27,975,817 shares issued and outstanding at March 31, 2014, 27,869,317 shares issued and outstanding at December 31, 2013	3	3
Class B common stock, $0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at March 31, 2014 and December 31, 2013	2	2
Additional paid-in capital	103,625	102,587
Retained earnings	162,813	171,094
Accumulated other comprehensive income, net	1,726	3,112
Non-controlling interest	12	8
Total stockholders' equity	268,181	276,806
Total liabilities and stockholders' equity	$581,097	$604,660

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

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

	Three Months Ended March 31,	
	2014	2013
Revenues	$100,731	$110,136
Cost of revenues	83,177	88,617
Gross profit	17,554	21,519
Selling, general and administrative expenses	24,339	23,601
Operating loss	(6,785)	(2,082)
Other expenses, net	1,732	465
Loss before benefit for income taxes	(8,517)	(2,547)
Income tax benefit	(236)	(623)
Net loss	$(8,281)	$(1,924)
Net loss per share attributable to common shareholders:		
Basic	$(0.18)	$(0.04)
Diluted	$(0.18)	$(0.04)
Weighted average common shares outstanding:		
Basic	45,909,995	45,327,237
Diluted	45,909,995	45,327,237

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

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AMERESCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net loss	$(8,281)	$(1,924)
Other comprehensive loss:		
Unrealized gain (loss) from interest rate hedge, net of tax of $268 and $(142), respectively	(496)	925
Foreign currency translation adjustments	(890)	(952)
Total other comprehensive loss	(1,386)	(27)
Comprehensive loss	$(9,667)	$(1,951)

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 THREE MONTHS ENDED MARCH 31, 2014
(in thousands, except share amounts)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Non-controlling	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Income	Interest	Equity
Balance, December 31, 2013	27,869,317	$ 3	18,000,000	$ 2	$ 102,587	$ 171,094	$ 3,112	$ 8	$ 276,806
Exercise of stock options, net	106,500	—	—	—	320	—	—	—	320
Stock-based compensation expense	—	—	—	—	718	—	—	—	718
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	(496)	—	(496)
Foreign currency translation adjustment	—	—	—	—	—	—	(890)	—	(890)
Non-controlling interest	—	—	—	—	—	—	—	4	4
Net loss	—	—	—	—	—	(8,281)	—	—	(8,281)
Balance, March 31, 2014	27,975,817	$ 3	18,000,000	$ 2	$ 103,625	$ 162,813	$ 1,726	$ 12	$ 268,181

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

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

	Three Months Ended March 31,	
	2014	2013 (Revised, see Note 2)
Cash flows from operating activities:		
Net loss	$(8,281)	$(1,924)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation of project assets	3,637	4,010
Depreciation of property and equipment	694	797
Amortization of deferred financing fees	299	84
Amortization of intangible assets	818	891
Provision for bad debts	244	42
Unrealized gain on interest rate swaps	(129)	(389)
Stock-based compensation expense	718	671
Deferred income taxes	3,833	(1,049)
Excess tax benefits from stock-based compensation arrangements	—	(139)
Changes in operating assets and liabilities:		
Restricted cash	(508)	(398)
Accounts receivable	8,847	(4,186)
Accounts receivable retainage	5,565	1,202
Federal ESPC receivable	(3,047)	(9,674)
Inventory	1,026	(1,992)
Costs and estimated earnings in excess of billings	21,229	18,620
Prepaid expenses and other current assets	1,221	876
Project development costs	(1,478)	(1,645)
Other assets	(2,087)	154
Accounts payable, accrued expenses and other current liabilities	(22,101)	(38,098)
Billings in excess of cost and estimated earnings	(3,137)	962
Other liabilities	(40)	(1,369)
Income taxes payable	(4,971)	(1,066)
Cash flows from operating activities	2,352	(33,620)
Cash flows from investing activities:		
Purchases of property and equipment	(266)	(1,094)
Purchases of project assets	(8,331)	(12,856)
Grant awards received on project assets	—	1,291
Acquisitions, net of cash received	—	(1,808)
Cash flows from investing activities	$(8,597)	$(14,467)

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

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

	Three Months Ended March 31,	
	2014	2013 (Revised, see Note 2)
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	$—	$139
Payments of financing fees	(287)	(40)
Proceeds from exercises of options	320	855
Proceeds from senior secured credit facility	8,000	—
Proceeds from Federal ESPC projects	3,522	6,555
Non-controlling interest	4	(65)
Restricted cash	183	722
Payments on long-term debt	(2,720)	(3,806)
Cash flows from financing activities	9,022	4,360
Effect of exchange rate changes on cash	792	1,342
Net increase (decrease) in cash and cash equivalents	3,569	(42,385)
Cash and cash equivalents, beginning of period	17,171	63,348
Cash and cash equivalents, end of period	$20,740	$20,963
Supplemental disclosures of cash flow information:		
Cash paid for interest	$1,730	$1,256
Cash paid for income taxes	$834	$221
Noncash ESPC receivable financing	$—	$8,549

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

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AMERESCO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except share and per share amounts)

1. DESCRIPTION OF BUSINESS

Ameresco, Inc. (including its subsidiaries, the "Company") was organized as a Delaware corporation on April 25, 2000. The Company is a provider of energy efficiency solutions for facilities throughout North America. The Company provides solutions, both products and services, that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. The Company's comprehensive set of services includes upgrades to a facility's energy infrastructure and the construction and operation of small-scale renewable energy plants. It also sells certain photovoltaic ("PV") equipment worldwide. The Company operates in the United States, Canada and Europe.

The Company is compensated through a variety of methods, including: 1) direct payments based on fee-for-services contracts (utilizing lump-sum or cost-plus pricing methodologies); 2) the sale of energy from the Company's generating assets; and 3) direct payment for photovoltaic equipment and systems.

The condensed consolidated financial statements as of March 31, 2014, and for the three months ended March 31, 2014 and 2013, 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, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 17, 2014. 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

Reclassification

During the fourth quarter of 2013, the Company changed the manner in which advances received from third-party investors under agreements to finance certain energy savings performance contract ("ESPC") projects with various Federal Government agencies were classified in the consolidated statements of cash flows. The Company concluded that as the transfers of receivables under these agreements do not qualify for sales accounting under accounting standards codification ("ASC") 860, Transfers and Servicing, until final customer acceptance of the work, the advances from the investors would be better classified as financing cash flows rather than operating cash flows where they had been previously presented. The use of the cash received under these arrangements to pay project costs will continue to be classified as operating cash flows. Due to the manner in which the energy savings performance contracts with the investors are structured, operating cash flows now only reflect the ESPC contract expenditure outflows and do not reflect any inflows from the corresponding contract revenues. Upon acceptance of the project by the Federal customer the ESPC receivable and corresponding ESPC liability are removed from the Company's consolidated balance sheet as a non-cash transaction.

The following is a summary of the impact of the change on the previously reported amounts in the consolidated statements of cash flows:

	Three Months Ended March 31, 2013		
	As Reported	Adjustment	Revised
Cash flows from operating activities	$(25,703)	$(7,917)	$(33,620)
Cash flows from investing activities	$(14,467)	$—	$(14,467)
Cash flows from financing activities	$(3,557)	$7,917	$4,360

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 accumulated other comprehensive income within stockholders' equity. The Company prepares its financial statements in conformity with GAAP.

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AMERESCO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)
(in thousands, except share and per share amounts)

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions used in these condensed consolidated financial statements relate to management's estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, project development costs, fair value of derivative financial instruments and stock-based awards, 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 ESPCs, construction of project assets, cash collateralized letter of credit and operating and maintenance reserve accounts, 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 period. Bad debts are written off against the allowance when identified.

Changes in the allowance for doubtful accounts are as follows:

	Three Months Ended March 31,	
	2014	2013
Allowance for doubtful accounts, beginning of period	$1,519	$1,174
Charges to costs and expenses	244	42
Account write-offs and other	(136)	7
Allowance for doubtful accounts, end of period	$1,627	$1,223

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 PV 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)
(in thousands, except share and per share amounts)

months of 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 as a current asset those project development efforts that are expected to proceed to construction activity in the twelve months that follow. The Company periodically reviews these balances and writes off any amounts where the realization of the related revenue is no longer probable.

Property and Equipment

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

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

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 March 31, 2014 and 2013 was $395 and $465, respectively.

Routine maintenance costs are expensed in the current year's consolidated statements of income (loss) to the extent that they do not extend the life of the asset. Major maintenance, upgrades and overhauls are required for certain components of the Company's assets. In these instances, the costs associated with these upgrades are capitalized and are depreciated over the shorter of the remaining life of the asset or the period until the next required major maintenance or overhaul. Gains or losses on disposal of property and equipment are reflected in selling, general and administrative expenses in the consolidated statements of income (loss).

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)
(in thousands, except share and per share amounts)

energy property, within five years from the date the property is placed in service, then a prorated portion of the Section 1603 payment must be repaid.

The Company did not receive any Section 1603 grants during the three months ended March 31, 2014. The Company received $1,291 in Section 1603 grants during the three months ended March 31, 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 $8,041 and $8,163 recorded in the accompanying consolidated balance sheets as of March 31, 2014 and December 31, 2013, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

Deferred Financing Fees

Deferred financing fees relate to the external costs incurred to obtain financing for the Company. 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.

Other Assets

Other assets consist primarily of notes and contracts receivable due to the Company from various customers and non-current restricted cash. Other assets also include the fair value of derivatives and the non-current portion of project development costs.

Asset Retirement Obligations

The Company recognizes a liability for the fair value of required asset retirement obligations (“AROs”) when such obligations are incurred. The liability is estimated on a number of assumptions requiring management’s judgment, including equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the consolidated statements of income (loss). As of March 31, 2014 and December 31, 2013, the Company had no AROs.

Federal ESPC Liabilities

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

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AMERESCO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)
(in thousands, except share and per share amounts)

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. See Note 7 for additional disclosures.

Revenue Recognition

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

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

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

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

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

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

The Company recognizes revenue from operations and maintenance ("O&M") contracts, consulting services and enterprise energy management services as the related services are performed.

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

Cost of Revenues

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

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

Income Taxes

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

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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 4 for additional information on the Company’s income taxes.

Foreign Currency

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

Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses, equity-based liabilities, short- and 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 and Note 6 for additional information regarding the Company’s fair value measurements.

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.

Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term debt approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of March 31, 2014, the fair value of the Company’s fixed-rate long-term debt exceeds its carrying value by approximately $162. Fair value of the Company’s debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

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

See Note 6 for additional information related to fair value measurements.

Stock-Based Compensation Expense

Stock-based compensation expense results from the issuance of shares of restricted common stock and grants of stock options to employees, directors, outside consultants and others. The Company recognizes the costs associated with restricted

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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 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. This 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.

For the three months ended March 31, 2014 and 2013, the Company recorded stock-based compensation expense of $718 and $671, respectively, in connection with stock-based payment awards. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options. As of March 31, 2014, there was $5,425 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.9 years.

The Company also accounts for equity instruments issued to non-employee directors and consultants at fair value. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the three months ended March 31, 2014 or during the year ended December 31, 2013.

Derivative Financial Instruments

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

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.

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

During 2007, the Company entered into two 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 $13,081 and $3,256, each a variable rate note at fixed interest rates of 5.4% and 5.3%, respectively, and expire in March 2024 and February 2021, respectively. These interest rate swaps qualified, but were not designated, as cash flow hedges until April 1, 2010. Since April 2010, they have been designated as hedges.

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of approximately $27,900 variable rate note at a fixed interest rate of 6.99% and expires in December 2024. This swap was designated as a hedge in 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 variable rate note at a fixed interest rate of 1.965% and expires in June 2016. This interest rate swap has been designated as a hedge since inception.

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

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

See Notes 6 and 7 for additional information on the Company's derivative instruments.

Earnings Per Share

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

The Company excluded 775,588 and 893,511 potentially dilutive shares from the calculation of diluted earnings per share for the three months ended March 31, 2014 and 2013, respectively, as the effect would be anti-dilutive due to the Company's net loss position in both periods.

For the three months ended March 31, 2014 and 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 1,361,405 and 1,516,676, respectively.

Variable Interest Entities

Certain contracts are executed jointly through partnership and joint venture arrangements with unrelated third parties. Generally, these arrangements are characterized by a 50 percent or less ownership interest that requires only a small initial investment. The arrangements are often formed for the single business purpose of executing a specific project and allow the Company to share risks and/or secure specialty skills required for project execution.

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The Company evaluates each partnership and joint venture at inception to determine if it qualifies as a variable interest entity ("VIE") under ASC 810, Consolidation. A variable interest entity is an entity used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors who are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. Upon the occurrence of certain events outlined in ASC 810, the Company reassesses its initial determination of whether the partnership or joint venture is a VIE.

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

3. GOODWILL AND INTANGIBLE ASSETS

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

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	Other	Total
Balance, December 31, 2013	$24,759	$3,375	$4,124	$ —	$20,816	$53,074
Fair value adjustment(1)	—	—	—	—	641	641
Currency effects	—	—	(156)	—	100	(56)
Balance, March 31, 2014	$24,759	$3,375	$3,968	$ —	$21,557	$53,659
Accumulated Goodwill Impairment Balance, December 31, 2013	$—	$—	$(1,016)	$ —	$—	$(1,016)
Accumulated Goodwill Impairment Balance, March 31, 2014	$—	$—	$(1,016)	$ —	$—	$(1,016)

(1) Fair value adjustment represents a purchase accounting adjustment to decrease the recorded fair value of certain acquired intangible assets totaling $801, net of a $160 deferred tax liability adjustment, related to the Company's prior year acquisition of The Energy Services Partnership Limited and ESP Response Limited (together "ESP").

Separable intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. The Company annually assesses whether a change in the life over which the Company's assets are amortized is necessary, or more frequently if events or circumstances warrant. No changes to useful lives were made during the three months ended March 31, 2014 or for the year ended December 31, 2013.

Acquired intangible assets other than goodwill that are subject to amortization include customer contracts, customer relationships, non-compete agreements, technology and trade names. Customer contracts are amortized ratably over the period of the acquired customer contracts ranging in periods from approximately one to five years. All other acquired intangible assets are amortized over periods ranging from approximately four to fourteen years, as defined by the nature of the respective intangible asset.

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

	As of March 31, 2014	As of December 31, 2013
Gross Carrying Amount		
Customer contracts	$7,302	$7,684
Customer relationships	7,650	8,200
Non-compete agreements	3,252	3,230
Technology	2,363	2,386
Trade names	554	556
	21,121	22,056
Accumulated Amortization		
Customer contracts	5,616	5,349
Customer relationships	3,224	2,923
Non-compete agreements	2,028	1,872
Technology	1,391	1,299
Trade names	379	360
	12,638	11,803
Intangible assets, net	$8,483	$10,253

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). Amortization expense for the three months ended March 31, 2014 and 2013 related to customer contracts was $251 and $227, respectively. Amortization expense for the three months ended March 31, 2014 and 2013 related to all other acquired intangible assets was $567 and $664, respectively.

4. INCOME TAXES

The benefit for income taxes was $(236) and $(623), for the three months ended March 31, 2014 and 2013, respectively. The estimated 2014 effective tax rate changed to 2.8% for the three months ended March 31, 2014 from a 24.5% estimated annual effective tax rate for the three months ended March 31, 2013.

At March 31, 2014 and December 31, 2013, the Company had approximately $9,200 of total gross unrecognized tax benefits. Of the total gross unrecognized tax benefits as of March 31, 2014 and December 31, 2013, approximately $5,500 (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.

5. 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-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,

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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 $3,300.
The Company has established a reserve reflecting its current estimate of its ultimate exposure to these assessments.

6. 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:

	Level	Fair Value as of March 31, 2014	December 31, 2013
Assets:			
Interest rate swap instruments	2	$875	$1,553
Liabilities:			
Interest rate swap instruments	2	$4,224	$4,268

The fair value of the Company's interest rate swaps was determined using cash flow analysis on the expected cash flow of the contract in combination with observable market-based inputs, including interest rate curves and implied volatilities. As part of this valuation, the Company considered the credit ratings of the counterparties to the interest rate swaps to determine if a credit risk adjustment was required.
The fair value of financial instruments is determined by reference to observable market data and other valuation techniques as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At March 31, 2014, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on quoted market prices or on rates available to the Company for debt with similar terms and maturities, which are considered to be level two inputs. There were no transfers in or out of level two for the three month period ended March 31, 2014. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt are as follows:

	As of March 31, 2014		As of December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	$121,372	$121,210	$114,776	$116,196

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 three months ended March 31, 2014.

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7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

	Derivatives as of March 31, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other assets	$875	Other assets	$1,553
Interest rate swap contracts	Other liabilities	$4,224	Other liabilities	$4,268

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

	Location of (Gain) Loss Recognized in Income	Amount of (Gain) Loss Recognized in Income for the Three Months Ended March 31,	
		2014	2013
Derivatives Designated as Hedging Instruments:			
Interest rate swap contracts	Other expenses, net	$(129)	$—
Derivatives Not Designated as Hedging Instruments:			
Interest rate swap contracts	Other expenses, net	$—	$(389)

	For the Three Months Ended March 31, 2014	
	Loss Recognized in Accumulated Other Comprehensive Income	Interest Expense Reclassified from Accumulated Other Comprehensive Income into Other Expenses, Net
Derivatives Designated as Hedging Instruments:		
Interest rate swap contracts	$764	$429

8. BUSINESS SEGMENT INFORMATION

The Company reports results under ASC 280, Segment Reporting. The Company's reportable segments are U.S. Regions, U.S. Federal, Canada and Small-Scale Infrastructure. The Company's U.S. Regions, U.S. Federal and Canada segments offer energy efficiency products and services, which include the design, engineering and installation of equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure; renewable energy products and services, which include the construction of small-scale plants for customers that produce electricity, gas, heat or cooling from renewable sources of energy; and O&M services. The Company's Small-Scale Infrastructure segment sells electricity, processed LFG, heat or cooling produced from renewable sources of energy from small-scale plants that the Company owns. The "All Other" category offers enterprise energy management services, consulting services and the sale and installation of solar PV energy products and systems. These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments.

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

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

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	All Other	Total Consolidated
Three Months Ended March 31, 2014						
Revenues	$41,006	$11,350	$16,299	$ 11,149	$20,927	$ 100,731
Interest income	—	—	1	12	—	13
Interest expense	—	—	412	769	—	1,181
Depreciation and amortization of intangible assets	314	272	406	2,958	855	4,805
Unallocated corporate activity	—	—	—	—	—	(8,068)
Income (loss) before taxes, excluding unallocated corporate activity	284	—	(1,359)	672	(46)	(449)
Three Months Ended March 31, 2013						
Revenues	54,698	12,963	13,660	10,344	18,471	110,136
Interest income	—	—	14	—	—	14
Interest expense	—	—	158	360	—	518
Depreciation and amortization of intangible assets	463	237	354	3,457	537	5,048
Unallocated corporate activity	—	—	—	—	—	(6,229)
Income (loss) before taxes, excluding unallocated corporate activity	2,112	661	(730)	1,138	501	3,682

9. 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 construction-to-term loan credit facility and bears interest at a variable rate. At March 31, 2014, $44,675 was outstanding under construction and term loans. The weighted average rate for these loans at March 31, 2014 was 3.250%.

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 revolving credit facility and a $40,000 term loan. The revolving credit facility may be increased up to an additional $25,000 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 March 31, 2014, $24,286 was outstanding under the term loan and $8,000 was outstanding under the revolving credit facility. Payments on the term loan are due in quarterly principal installments of $1,429 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. In November 2013, the Company amended the senior credit facility to reduce the trailing four quarters minimum required EBITDA amount to $30,000 from $40,000.

On March 12, 2014, the Company amended the senior secured credit facility as follows: (i) to increase the margins added to Bank of America's prime rate or the one-, two- three- or six-month London interbank deposit rate, as applicable, in determining the interest rate by 25 basis points to 0.50% and 2.00%, respectively; (ii) to waive compliance with the minimum EBITDA covenant for the four consecutive fiscal quarters ended December 31, 2013; (iii) to reduce the required minimum EBITDA amount to $16,500 for the four consecutive fiscal quarters ended March 31, 2014, $22,000 for the four consecutive fiscal quarters ended June 30, 2014, $24,000 for the four consecutive fiscal quarters ended September 30, 2014, and $27,000 for the four consecutive fiscal quarters ended December 31, 2014 and thereafter; (iv) to increase the maximum ratio of total funded debt to EBITDA as of the end of each fiscal quarter to 2.5 to 1.0 for March 31, 2014 and 2.25 to 1.0 for June 30, 2014, returning to 2.0 to 1.0 for September 30, 2014 and thereafter; and (v) to reduce the minimum ratio of cash flow to debt service

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to 1.25 to 1.0 for the four fiscal quarters ended March 31, 2014, returning to 1.5 to 1.0 for the four fiscal quarters ended June 30, 2014 and thereafter.

For purposes of the Company's senior secured facility: EBITDA excludes the results of certain renewable energy projects that the Company owns and for which financing from others remains outstanding; total funded debt includes amounts outstanding under both the term loan and revolver portions of the senior secured credit facility plus other indebtedness, but excludes non-recourse indebtedness of project company subsidiaries; cash flow is based on EBITDA as used in the facility, less capital expenditures (other than by project company subsidiaries that are not guarantors under the facility), certain taxes, and dividends and other distributions; and debt service includes principal and interest payments on the indebtedness included in total funded debt other than principal payments on the revolver portion of the facility.

At March 31, 2014 the Company was in compliance with all financial covenants.

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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, 2013 included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed on March 17, 2014 with the U.S. Securities and Exchange Commission ("SEC"). This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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," "estimat "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, 2013 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.

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 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. ("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 acquisition of the xChangePoint® and energy projects businesses from Energy and Power Solutions, Inc. ("EPS"), which we operate as Ameresco Intelligent Systems ("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. (“FAME”) in 2012 expanded our asset planning consulting and software services offerings and our geographical position in western Canada.

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Our acquisition of the business of Ennovate Corporation 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 (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.

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 business is affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results" in Item 1A, Risk Factors 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. Our sales cycle recently has been averaging 18 to 40 months. Awarded backlog is created when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated from upgrading the customer's energy infrastructure. At this point, we also determine the sub-contractor, what equipment will be used, and assist in arranging for third party financing, as applicable. Recently, awarded projects have been taking 12 to 16 months to result in a signed contract and thus convert to fully-contracted backlog. It may take longer, however, depending upon the size and complexity of the project. Historically, approximately 90% of our awarded projects ultimately have resulted in a signed contract. After the customer and Ameresco agree to the terms of the contract and the contract becomes executed, the project moves to fully-contracted backlog. The contracts reflected in our fully-contracted backlog typically have a construction period of 12 to 24 months and we typically expect to recognize revenues for such contracts over the same period. Fully-contracted backlog begins converting into revenues generated from backlog on a percentage-of-completion basis once construction has commenced. See "We may not recognize all revenues from our backlog or receive all payments anticipated under awarded projects and customer contracts" and "In order to secure contracts for new projects, we typically face a long and variable selling cycle that requires significant resource commitments and requires a long lead time before we realize revenues" in Item 1A, Risk Factors in our Annual Report on Form 10-K.

As of March 31, 2014, we had backlog of approximately $395.1 million in expected future revenues under signed customer contracts for the installation or construction of projects, which we sometimes refer to as fully-contracted backlog; and we also had been awarded projects for which we do not yet have signed customer contracts with estimated total future revenues of an additional $963.6 million. As of March 31, 2013, we had fully-contracted backlog of approximately $343.8 million in expected future revenues under signed customer contracts for the installation or construction of projects; and we also had been awarded projects for which we had not yet signed customer contracts with estimated total future revenues of an additional $1.2 billion.

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 ("GAAP"). 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

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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 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.

The following, in no particular order, are certain critical accounting policies that among others, affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

- Revenue Recognition;
- Project Assets;
- Derivative Financial Instruments; and
- Variable Interest Entities.

Further details regarding our critical accounting policies and estimates can be found in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K. In addition, please refer to Note 2, “Summary of Significant Accounting Policies,” of our Notes to Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q. Management has determined that no material changes concerning our critical accounting policies have occurred since December 31, 2013.

Non-GAAP Financial Measures

We use the non-GAAP financial measures defined and discussed below to provide investors and others with useful supplemental information to our financial results prepared in accordance with GAAP. These non-GAAP financial measures should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. The tables below provide a reconciliation of these non-GAAP measures to the most directly comparable financial measures prepared in accordance with GAAP.

We understand that, although measures similar to these non-GAAP financial measures are frequently used by investors and securities analysts in their evaluation of companies, they have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for the most directly comparable GAAP financial measures or an analysis of our results of operations as reported under GAAP. To properly and prudently evaluate our business, we encourage investors to review our GAAP financial statements included above, and not to rely on any single financial measure to evaluate our business.

Adjusted EBITDA

We define adjusted EBITDA as operating income (loss) before depreciation, amortization of intangible assets, impairment of goodwill and stock-based compensation expense. We believe adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons: adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, capital structures and the methods by which assets were acquired; securities analysts often use adjusted EBITDA and similar non-GAAP measures as supplemental measures to evaluate the overall operating performance of companies; and by comparing our adjusted EBITDA in different historical periods, investors can evaluate our operating results without the additional variations of depreciation and amortization expense, goodwill impairment and stock-based compensation expense.

Our management uses adjusted EBITDA: as a measure of operating performance, because it does not include the impact of items that we do not consider indicative of our core operating performance; for planning purposes, including the preparation of our annual operating budget; to allocate resources to enhance the financial performance of the business; to evaluate the effectiveness of our business strategies; and in communications with the board of directors and investors concerning our financial performance.

Adjusted Free Cash Flow

We define adjusted free cash flow as cash flows from operating activities, less purchases of property and equipment, plus proceeds from Federal ESPC projects. Cash received in payment of Federal ESPC projects is treated as a financing cash flow under GAAP due to the unusual financing structure for these projects. These cash flows, however, correspond to the revenues

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generated by these projects. Thus we believe that adjusting operating cash flow to include the cash generated by our Federal ESPC projects and to give effect for purchases of property and equipment provides investors with a useful measure for evaluating the cash generating ability of our core operating business. Our management uses adjusted free cash flow as a measure of liquidity because it captures all sources of cash associated with our revenues generated by operations.

Reconciliations

The following table presents a reconciliation of adjusted EBITDA to operating loss, the most comparable GAAP measure (in thousands):

	Three Months Ended March 31,	
	2014	2013
Operating loss	$(6,785)	$(2,082)
Depreciation and amortization of intangible assets	5,149	5,698
Stock-based compensation	718	671
Adjusted EBITDA	$(918)	$4,287

The following table presents a reconciliation of adjusted free cash flow to cash flows from operating activities, the most comparable GAAP measure (in thousands):

	Three Months Ended March 31,	
	2014	2013 (Revised)
Cash flows from operating activities	$2,352	$(33,620)
Less: purchases of property and equipment	(266)	(1,094)
Plus: proceeds from Federal ESPC projects	3,522	6,555
Adjusted free cash flow	$5,608	$(28,159)

Results of Operations

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

	Three Months Ended March 31,					
	2014			2013		
	Dollar Amount	% of Revenues		Dollar Amount	% of Revenues	
Revenues	$100,731	100.0	%	$110,136	100.0	%
Cost of revenues	83,177	82.6	%	88,617	80.5	%
Gross profit	17,554	17.4	%	21,519	19.5	%
Selling, general and administrative expenses	24,339	24.2	%	23,601	21.4	%
Operating loss	(6,785)	(6.7)	%	(2,082)	(1.9)	%
Other expenses, net	1,732	1.7	%	465	0.4	%
Loss before benefit from income taxes	(8,517)	(8.5)	%	(2,547)	(2.3)	%
Income tax benefit	(236)	(0.2)	%	(623)	(0.6)	%
Net loss	$(8,281)	(8.2)	%	$(1,924)	(1.7)	%

Revenues

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

	Three Months Ended March 31,		Dollar Change	Percentage Change
	2014	2013		
Revenues	$100,731	$110,136	$(9,405)	(8.5)%

We derive a majority of our revenue from energy efficiency products and services, which accounted for approximately 64.3% and 63.4% of revenues for the three months ended March 31, 2014 and 2013, respectively. Revenues were down $9.4 million, or 8.5%, for the three months ended March 31, 2014 compared to same period of 2013 primarily due to a decrease in

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the size and phase of completion of active projects, partially offset by an increase in revenues from Small-Scale Infrastructure, enterprise energy management services and the sale of solar PV energy products and systems ("integrated-PV").

Cost of Revenues and Gross Profit

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

	Three Months Ended March 31,		Dollar Change	Percentage Change
	2014	2013		
Cost of revenues	$83,177	$88,617	$(5,440)	(6.1)%
Gross margin %	17.4%	19.5%		

The majority of our cost of revenues are incurred in connection with energy efficiency projects for which expenditures represented approximately 82.0% and 79.4% of corresponding revenue for the three months ended March 31, 2014 and 2013, respectively. Cost of revenues decreased $(5.4) million, or (6.1)%, for the three months ended March 31, 2014 compared to the same period of 2013 primarily due to the decrease in revenues described above, partially offset by an unfavorable mix of lower margin revenue sources and higher fuel and operating costs, at our Savannah River Site ("SRS"), due to weather related issues.

As a result of certain acquisitions, we have intangible assets related to customer contracts; these are amortized over a period of approximately one to five years from the respective date of acquisition. This amortization is recorded as a cost of revenues in the consolidated statements of income (loss). For the three months ended March 31, 2014 and 2013, we recorded amortization expense of $0.3 million and $0.2 million, respectively, related to customer contracts.

Selling, General and Administrative Expenses

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

	Three Months Ended March 31,		Dollar Change	Percentage Change
	2014	2013		
Selling, general and administrative expenses	$24,339	$23,601	$738	3.1%

Selling, general and administrative expenses increased $0.7 million, or 3.1%, for the three months ended March 31, 2014 compared to same period of 2013 primarily due to severance charges.

Amortization expense related to customer relationships, non-compete agreements, technology and trade names intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). For the three months ended March 31, 2014 and 2013, we recorded amortization expense, related to these intangible assets, of $0.6 million and $0.7 million, respectively.

Other Expenses, Net

Other expenses, net includes unrealized gains and losses from derivatives, interest income and expenses, amortization of deferred financing costs, net and foreign currency transaction gains and losses. Other expenses, net, increased $1,268 for the three months ended March 31, 2014 compared to same period of 2013 primarily due to a $0.6 million increase in interest expense, net of interest income, $0.3 million related to foreign currency transaction losses and a $0.3 million decrease in unrealized gains on derivatives.

Loss Before Taxes

Loss before taxes increased $6.0 million, or 234.4%, for the three months ended March 31, 2014 to a loss of $8.5 million from a loss of $2.5 million for the three months ended March 31, 2013 due to the reasons described above.

Benefit from Income Taxes

The benefit for income taxes was $0.2 million for the the three months ended March 31, 2014, compared to a benefit of $0.6 million for the three months ended March 31, 2013. The estimated annual effective tax rate applied for the three months ended March 31, 2014 was 2.8%, compared to 24.5% for the three months ended March 31, 2013, due to investment tax credits on energy efficiency projects placed or expected to be placed in service in 2014 as compared to deductions allowed under Section 179D of the Internal Revenue Code in 2013. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2014 were the effects of investment tax credits

and production tax credits to which we are

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entitled from plants we own. The principal reasons for the difference between the statutory rate and the estimated annual effective rate for 2013 were the effects of deductions permitted under Section 179D in 2013, which relate to the installation of certain energy efficiency equipment in Federal, state, provincial and local government-owned buildings, as well as tax credits to which we are entitled from plants we own.

Net Loss

Net loss increased for the three months ended March 31, 2014 by $(6.4) million, or 330.4%, to a loss of $8.3 million from a loss of $1.9 million for the three months ended March 31, 2013 due primarily to the decrease in revenues and unfavorable mix of lower margin projects, as explained above. Earnings per share for the three months ended March 31, 2014 was $(0.18) per basic share, representing a decrease of $0.14, or 350.0%, compared to the same period of 2013, and $(0.18) per diluted share, representing a decrease of $0.14, or 350.0%, compared to the same period of 2013.

Business Segment Analysis (in thousands)

Our reportable segments are U.S. Regions, U.S. Federal, Canada and Small-Scale Infrastructure. Our U.S. Regions, U.S. Federal and Canada segments offer energy efficiency products and services, which include the design, engineering and installation of equipment and other measures to improve the efficiency and control the operation of a facility's energy infrastructure; renewable energy products and services, which include the construction of small-scale plants for customers that produce electricity, gas, heat or cooling from renewable sources of energy; and O&M services. Our Small-Scale Infrastructure segment sells electricity, processed LFG, heat or cooling produced from renewable sources of energy from small-scale plants that we own. The "All Other" category offers enterprise energy management services, consulting services and the sale and installation of solar PV energy products and systems. These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments.

U.S. Regions

	Three Months Ended March 31,		Dollar Change	Percentage Change
	2014	2013		
Revenues	$41,006	$54,698	$(13,692)	(25.0)%
Income before taxes	$284	$2,112	$(1,828)	(86.6)%

Revenues for the U.S. Regions segment decreased for the three months ended March 31, 2014 compared to same period of 2013 by $(13.7) million, or 25.0%, to $41.0 million due to a decrease in the size and phase of completion of active projects.

Income before taxes for the U.S. Regions segment decreased for the three months ended March 31, 2014 compared to same period of 2013 by $(1.8) million, or 86.6%, to $0.3 million. The decrease was primarily due to the decrease in revenues described above and an unfavorable mix of lower margin revenue sources.

U.S. Federal

	Three Months Ended March 31,		Dollar Change	Percentage Change
	2014	2013		
Revenues	$11,350	$12,963	$(1,613)	(12.4)%
Income before taxes	$—	$661	$(661)	(100.0)%

Revenues for the U.S. Federal segment decreased for the three months ended March 31, 2014 compared to same period of 2013 by $(1.6) million, or 12.4%, to $11.4 million primarily due to the timing of revenue recognized as a result of the phase of completion on new projects.

Income before taxes for the U.S. Federal segment decreased for the three months ended March 31, 2014 compared to same period of 2013 by $(0.7) million, or 100.0%, to $0.0 million. The decrease was primarily due to the decrease in revenues and higher fuel and operating costs, at SRS, due to weather related issues, partially offset by a decrease in selling, general and administrative expenses.

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Canada

	Three Months Ended March 31,		Dollar	Percentage
	2014	2013	Change	Change
Revenues	$16,299	$13,660	$2,639	19.3 %
Loss before taxes	$(1,359)	$(730)	$(629)	(86.2)%

Revenues for the Canada segment increased for the three months ended March 31, 2014 compared to same period of 2013 by $2.6 million, or 19.3%, to $16.3 million, primarily due to the timing of revenue recognized as a result of the phase of active projects.

Loss before taxes for the Canada segment increased for the three months ended March 31, 2014 compared to the same period of 2013 by $0.6 million, or 86.2%, to a loss of $(1.4) million. The increase was primarily due to an unfavorable mix of lower margin projects.

Small-Scale Infrastructure

	Three Months Ended March 31,		Dollar	Percentage
	2014	2013	Change	Change
Revenues	$11,149	$10,344	$805	7.8 %
Income before taxes	$672	$1,138	$(466)	(40.9)%

Revenues for the Small-Scale Infrastructure segment increased for the three months ended March 31, 2014 compared to same period of 2013 by $0.8 million, or 7.8%, to $11.1 million primarily due to an increase in the number of plants fully operational during the three months ended March 31, 2014, as compared to the same period of 2013.

Income before taxes for the Small-Scale Infrastructure segment decreased for the three months ended March 31, 2014 compared to same period of 2013 by $(0.5) million, or 40.9%, to $0.7 million. The decrease was primarily due to a decrease in unrealized gains on interest rate swaps during the three months ended March 31, 2014, as compared to the same period of 2013.

All Other & Unallocated Corporate Activity

	Three Months Ended March 31,		Dollar	Percentage
	2014	2013	Change	Change
Revenues	$20,927	$18,471	$2,456	13.3 %
(Loss) income before taxes	$(46)	$501	$(547)	(109.2)%
Unallocated corporate activity	$(8,068)	$(6,229)	$(1,839)	29.5 %

Revenues not allocated to segments and presented as all other increased for the three months ended March 31, 2014 compared to same period of 2013 by $2.5 million, or 13.3%, to $20.9 million primarily due to a $1.8 million increase in integrated-PV revenue and $0.7 million of revenue generated from our prior year acquisition of ESP.

(Loss) income before taxes not allocated to segments and presented as all other decreased for the three months ended March 31, 2014 compared to same period of 2013 by $0.5 million, or 109.2%, to a loss of $0.0 million primarily due an increase in intangible amortization related to our prior year acquisition of ESP.

Unallocated corporate activity includes all corporate level selling, general and administrative expenses and other expenses not allocated to the segments. We do not allocate any indirect expenses to the segments.

Unallocated corporate activity increased for the three months ended March 31, 2014 compared to same period of 2013 by $1.8 million, or 29.5%, to $(8.1) million primarily due to severance charges and an increase in professional fees.

Liquidity and Capital Resources

Sources of liquidity. Since inception, we have funded operations primarily through cash flow from operations, advances from Federal ESPC projects and various forms of debt. We believe that available cash and cash equivalents and availability under our revolving senior secured credit facility, combined with our access to credit markets, will be sufficient to fund our operations through 2014 and thereafter.

Proceeds from our Federal ESPC projects are generally received through agreements to sell the ESPC receivables related to certain ESPC contracts to third-party investors. We use the advances from the investors under these agreements to finance

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the projects. Until recourse to us for the ESPC receivables transferred to the investor ceases upon final acceptance of the work by the Government customer, we are the primary obligor for financing received. The transfers of receivables under these agreements do not qualify for sales accounting until final customer acceptance of the work, so the advances from the investors are not classified as operating cash flows. Cash draws that we receive under these ESPC agreements are recorded as financing cash inflows. The use of the cash received under these arrangements to pay project costs is classified as operating cash flows. Due to the manner in which the ESPC contracts with the third-party investors are structured, our reported operating cash flows are materially impacted by the fact that operating cash flows only reflect the ESPC contract expenditure outflows and do not reflect any inflows from the corresponding contract revenues. Upon acceptance of the project by the Federal customer the ESPC receivable and corresponding ESPC liability are removed from our consolidated balance sheet as a non-cash transaction. See Note 2 to our Notes to Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

As as result of the structure of the Federal ESPC project arrangements management uses adjusted free cash flows, as previously defined, as a measure of of liquidity because it captures all sources of cash associated with our revenues generated by operations. Adjusted free cash flows for the three months ended March 31, 2014 and 2013 were $5.6 million and $(28.2) million, respectively.

Our service offering also includes the development, construction and operation of small-scale renewable energy plants. Small-scale renewable energy projects, or project assets, can either be developed for the portfolio of assets that we own and operate or designed and built for customers. Expenditures related to projects that we own are recorded as cash outflows from investing activities. Expenditures related to projects that we build for customers are recorded as cash outflows from operating activities as cost of revenues.

The amount of interest capitalized for the three months ended March 31, 2014 and 2013 was $0.4 million and $0.5 million, respectively.

Cash flows from operating activities. Operating activities provided $2.4 million of net cash during the three months ended March 31, 2014. During that period, we had a net loss of $8.3 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling $10.1 million. Decreases in accounts receivable including retainage, inventory, total billings and costs in excess of estimated earnings, prepaid expenses and other current assets provided $36.0 million. These were offset by increases in restricted cash, project development costs and other assets, and decreases in accounts payable and accrued expenses, other liabilities and income taxes payable, which used $31.2 million in cash. An increase in Federal ESPC receivables used an additional $3.0 million. As described above, Federal ESPC operating cash flows only reflect the ESPC contract expenditure outflows and do not reflect any inflows from the corresponding contract revenues, which are recorded as cash inflows from financing activities due to the timing of the receipt of cash related to the assignment of the ESPC receivables to the third-party investors.

Operating activities used $33.6 million of net cash during the three months ended March 31, 2013. During that period, we had a net loss of $1.9 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling $4.9 million. Decreases in total billings and costs in excess of estimated earnings, prepaid expenses and other current assets, other assets provided $20.2 million. These were offset by increases in restricted cash, accounts receivable including retainage, inventory and project development costs and decreases in accounts payable and accrued expenses, other liabilities and income taxes payable, which used $47.6 million in cash. An increase in Federal ESPC receivables used an additional $9.7 million.

Cash flows from investing activities. Cash flows from investing activities during the three months ended March 31, 2014 used $8.6 million. Development of our renewable energy plants used $8.3 million. In addition, we invested $0.3 million in purchases of other property and equipment.

Cash flows from investing activities during the three months ended March 31, 2013 used $14.5 million. Development of our renewable energy plants used $12.9 million. In addition, we invested $1.1 million in purchases of other property and equipment, and $1.8 million was used for the acquisition of Ennovate. These were partially offset by $1.3 million relating to grant awards received on project assets.

Cash flows from financing activities. Cash flows from financing activities during the three months ended March 31, 2014 provided $9.0 million. This was primarily due to draws on the revolving credit facility totaling $8.0 million and proceeds from exercises of options of $0.3 million. These were partially offset by payments on long-term debt of $2.7 million and payments of financing fees of $0.3 million. Proceeds from Federal ESPC projects provided $3.5 million.

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Cash flows from financing activities during the three months ended March 31, 2013 provided $4.4 million. This was primarily due to proceeds from the exercise of stock options of $0.9 million and a decrease in our investment in restricted cash of $0.7 million, offset by payments of long-term debt of $3.8 million. Proceeds from Federal ESPC projects provided $6.6 million.

Senior Secured Credit Facility — Revolver and Term Loan

We have a credit and security agreement with two banks. The credit facility consists of a $60.0 million revolving credit facility and an initial $40.0 million term loan. At March 31, 2014, $8.0 million was outstanding under the revolving credit facility and $24.3 million was outstanding under the term loan. The term loan requires quarterly principal payments of $1.4 million, with the balance due at maturity. Ameresco, Inc. is the sole borrower under the credit facility. The credit facility is secured by a lien on all of our assets other than renewable energy projects that we own and for which financing from others remains outstanding, and limits our ability to enter into other financing arrangements. Availability under the revolving credit facility is based on two times our EBITDA for the preceding four quarters, and we are required to maintain a minimum EBITDA amount on a rolling four-quarter basis. EBITDA for purposes of the facility excludes the results of renewable energy projects that we own and for which financing from others remains outstanding. The credit facility matures on June 30, 2016, when all amounts will be due and payable in full.

We recently amended the senior credit facility to:

- increase the margins over the applicable benchmark rate in determining the interest rate by 25 basis points;
- waive compliance with the minimum EBITDA covenant for the four consecutive fiscal quarters ended December 31, 2013;
- reduce the required minimum EBITDA amount to $16.5 million for the four consecutive fiscal quarters ended March 31, 2014, $22.0 million for the four consecutive fiscal quarters ended June 30, 2014, $24.0 million for the four consecutive fiscal quarters ended September 30, 2014, and $27.0 million for the four consecutive fiscal quarters ended December 31, 2014 and thereafter;
- increase the maximum ratio of total funded debt to EBITDA as of the end of each fiscal quarter to 2.5 to 1.0 for March 31, 2014 and 2.25 to 1.0 for June 30, 2014, returning to 2.0 to 1.0 for September 30, 2014 and thereafter; and
- reduce the minimum ratio of cash flow to debt service to 1.25 to 1.0 for the four fiscal quarters ended March 31, 2014, returning to 1.5 to 1.0 for the four fiscal quarters ended June 30, 2014 and thereafter.

As of March 31, 2014 we were in compliance with all of the financial and operational covenants in the senior credit facility. In addition, we do not consider it likely that we will fail to comply with these covenants for the next twelve months.

Project Financing

Construction and Term Loans. We have entered into a number of construction and term loan agreements for the purpose of constructing and owning certain renewable energy plants. The physical assets and the operating agreements related to the renewable energy plants are owned by wholly owned, single member special purpose subsidiaries. These construction and term loans are structured as project financings made directly to a subsidiary, and upon acceptance of a project, the related construction loan converts into a term loan. While we are required under generally accepted accounting principles to reflect these loans as liabilities on our consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc. As of March 31, 2014, we had outstanding $88.9 million in aggregate principal amount under these loans, bearing interest at rates ranging from 3.3% to 8.7% and maturing at various dates from 2015 to 2028. One loan with an outstanding balance as of March 31, 2014 totaling $4.1 million, does require Ameresco, Inc. to provide assurance to the lender of the project performance. A second loan, entered into during 2012, with an outstanding balance as of March 31, 2014 of $44.7 million requires Ameresco, Inc. to provide assurance to the lender of construction completion with respect to those projects still in construction and of reimbursement upon any recapture of certain renewable energy Government cash grants upon the occurrence of events that cause the recapture of such grants. As of December 31, 2013, we had outstanding $90.5 million in aggregate principal amount under these loans, bearing interest at rates ranging from 6.1% to 8.7% and maturing at various dates from 2015 to 2028.

Federal ESPC Liabilities. We have arrangements with certain lenders to provide advances to us during the construction or installation of projects for certain customers, typically Federal Governmental entities, in exchange for our assignment to the lenders of our rights to the long-term receivables arising from the ESPCs related to such projects. These financings totaled

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$47.8 million and $44.3 million in principal amounts at March 31, 2014 and December 31, 2013, respectively. Under the terms of these financing arrangements, we are required to complete the construction or installation of the project in accordance with the contract with our customer, and the debt remains on our consolidated balance sheet until the completed project is accepted by the customer.

These construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of March 31, 2014 we were in compliance with all of these financial and operational covenants. In addition, we do not consider it likely that we will fail to comply with these covenants during the term of these agreements.

Contractual Obligations

The following table summarizes our significant contractual obligations and commitments as of March 31, 2014 (in thousands):

	Payments due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Senior Secured Credit Facility:					
Revolver	$8,000	$—	$8,000	$—	$—
Term Loan	24,286	5,714	18,572	—	—
Project Financing:					
Construction and term loans	88,924	8,020	13,912	13,239	53,753
Federal ESPC liabilities(1)	47,820	—	47,820	—	—
Interest obligations(2)	36,702	5,289	8,856	6,827	15,730
Operating leases	10,290	2,976	4,543	2,261	510
Total	$216,022	$21,999	$101,703	$22,327	$69,993

(1) Federal ESPC arrangements relate to the installation and construction of projects for certain customers, typically Federal Governmental entities, where we assign to the third-party lenders our right to customer receivables. We are relieved of the liability when the project is completed and accepted by the customer. We typically expect to be relieved of the liability between one and three years from the date of project construction commencement. The table does not include, for our Federal ESPC liability arrangements, the difference between the aggregate amount of the long-term customer receivables sold by us to the lender and the amount received by us from the lender for such sale.

(2) For both the revolver and term loan portion of our senior secured credit facility, the table above assumes that the variable interest rate in effect at March 31, 2014 remains constant for the term of the facility.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheet.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2014, there have been no significant changes in market risk exposures that materially affected the quantitative and qualitative disclosures as described in Item 7A to our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report, or the evaluation date. Disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods

specified in the SEC's rules and forms.

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Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, after evaluating the effectiveness of our disclosure controls and procedures as of the evaluation date, concluded that as of the evaluation date, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness in our internal control over financial reporting disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 17, 2014, and discussed below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, other than those stated below, during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material Weakness Discussion and Remediation

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 17, 2014, we identified a material weakness in our internal control over financial reporting. Specifically, we did not have adequate processes to ensure timely preparation and reviews necessary to provide reasonable assurance that financial statements and related disclosures could be prepared in accordance with generally accepted accounting principles and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During the quarter ended March 31, 2014, we have undertaken the following actions, which had a material affect on our internal controls over financial reporting, to remediate the material weakness identified:

- we continued to act upon the enhancements to our internal controls that we implemented in 2013 as described in our Annual Report on Form 10-K for the year ended December 31, 2013; and
- we continued improving the quality and timing of our accounting close process and financial reporting to allow for an increase in time for review.

Further work, however, is required to develop appropriate controls in some aspects of our financial statement preparation and review process to provide reasonable assurance that controls are designed in the most effective and efficient manner possible. Therefore, while we believe these changes reduce the risk of financial statement misstatement, there continues to be additional work required for us to conclude that reasonable assurance has been obtained that all controls are operating effectively and in a timely manner. We expect to continue to undertake these actions as appropriate throughout 2014.

The Audit Committee is monitoring management's continuing development and implementation of its plan for undertaking the foregoing remedial measures. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of our internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting. Management is committed to continuous improvement of our internal control processes and will continue to diligently review our reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above. We expect that our remediation efforts will continue throughout 2014.

For the near-term future, the matter identified above will continue to constitute a material weakness in our internal control over financial reporting that could result in material misstatements in our financial statements not being prevented or detected.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary conduct of our business we are subject to periodic lawsuits, investigations and claims. Although we cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims against us, we do not believe that any currently pending or threatened legal proceedings to which we are a party will have a material adverse effect on our business, results of operations or financial condition.

For additional information about certain proceedings, please refer to Note 5, “Commitments and Contingencies”, to our Condensed Consolidated Financial Statements included included under Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Item 1A. Risk Factors

As of March 31, 2014, there have been no material changes to the risk factors described in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed (other than exhibit 32.1) as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERESCO, INC.

Date: May 8, 2014

By: /s/ Andrew B. Spence
Andrew B. Spence
Vice President and Chief Financial Officer
(duly authorized and principal financial officer)

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Exhibit Index

Exhibit Number	Description
10.1	Amendment No. 7 to Second Amended and Restated Credit and Security Agreement dated March 12, 2014 among Ameresco, Inc., certain guarantors party thereto, certain lenders party thereto from time to time and Bank of America, N.A. as Administrative Agent.
31.1	Principal Executive Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following condensed consolidated financial statements from Ameresco, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

*Furnished herewith.