

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-K  
August 28, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2015

OR

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

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

Commission file number 0-25259

**BOTTOMLINE TECHNOLOGIES (de), INC.**

(Exact Name of Registrant as Specified in Its Charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>02-0433294</b> (I.R.S. Employer Identification No.)
<b>325 Corporate Drive</b>  <b>Portsmouth, New Hampshire</b> (Address of Principal Executive Offices)	<b>03801</b> (Zip Code)
<b>Registrant's telephone number, including area code: (603) 436-0700</b>	

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

<b>Title of each class:</b> Common Stock, \$.001 par value per share	<b>Name of each exchange on which registered:</b> The NASDAQ Global Select Market
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

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(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of the registrant's common stock at the close of business on December 31, 2014 was \$984,453,507 (reference is made to Part II, Item 5 herein for a statement of assumptions upon which this calculation is based). The registrant has no non-voting stock.

There were 41,176,243 shares of common stock, \$.001 par value per share, of the registrant outstanding as of August 20, 2015.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Items 10, 11, 12, 13 and 14 of Part III (except for information required with respect to our executive officers, which is set forth under Part I Executive Officers and Other Key Employees of the Registrant ) have been omitted from this report, as we expect to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended June 30, 2015, a definitive proxy statement for our 2015 annual meeting of stockholders. The information required by Items 10, 11, 12, 13 and 14 of Part III of this report, which will appear in our definitive proxy statement, is incorporated by reference into this report.

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### **PART I**

*This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Any statements (including statements to the effect that we believe, expect, anticipate, plan, and similar expressions) that are not statements relating to historical matters should be considered forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements as a result of numerous important factors, including those discussed in Item 1A. Risk Factors.*

#### **Item 1. Business Our Company**

We power mission-critical business transactions. We help our customers optimize financially-oriented operations and build deeper customer and partner relationships by providing a trusted and easy-to-use set of cloud-based digital banking, fraud prevention, payment, financial document, insurance and healthcare solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. The majority of our revenues are derived from offerings sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We operate a cloud-based network that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. We offer hosted and on-premise solutions that banks use to provide cash management and treasury capabilities to their business customers, as well as solutions that banks and credit unions use to facilitate customer acquisition and growth. We offer financial messaging solutions for banks and corporations around the world, via solutions that leverage the SWIFT global messaging network. We offer legal spend management solutions that help manage legal and claims vendor expenditures and that automate receipt and review of legal invoices for insurance companies and other large corporate consumers of outside legal services. Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents and our healthcare customers use our solutions to streamline financial processes, particularly the patient enrollment process. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents. We also offer comprehensive cyber fraud and risk management solutions that are designed to non-invasively monitor and analyze user behavior to flag behavioral and data anomalies and other suspicious activity.

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their specific business requirements, we also provide professional services for installation, training, consulting and product enhancement.

Bottomline was originally organized as a New Hampshire corporation in 1989 and was reincorporated as a Delaware corporation in August 1997. We maintain our corporate headquarters in Portsmouth, New Hampshire and our international headquarters in Reading, England. We maintain a website at [www.bottomline.com](http://www.bottomline.com). Our website includes links to our Code of Business Conduct and Ethics, and the charters of our Audit Committee, Leadership Development and Compensation Committee, and Nominations and Corporate Governance Committee. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge, through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practical after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

Unless the context requires otherwise, references to we, us, our, Bottomline and the Company refer to Bottomline Technologies (de), Inc. and its subsidiaries.

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### **Our Strategy**

Our objective is to be the leading global provider of business-to-business payment, invoice, document automation software and cyber fraud and risk management solutions and services. Key elements of our strategy include the following:

developing innovative new technologies that will allow us to broaden our market footprint, enhance our competitive position in our current markets and capitalize on new market opportunities;

delivering an increasingly broad set of solutions via the cloud to provide ease of deployment and efficiency for our customers and increased recurring revenue to us;

providing solutions which enable banks of all sizes to offer their business customers leading cash management and treasury capabilities;

continuing to add customers and functionality to our growing Paymode-X, legal spend management and financial messaging networks;

attracting and retaining exceptional technical, industry and management talent who have experience in our markets and the capability to grow our business;

continuing to develop and broaden strategic relationships that enhance our global position; and

pursuing strategic acquisitions that expand our geographical footprint and market share or extend our product functionality.

### **Our Products and Services**

#### ***Payment Network***

Paymode-X is a leading business-to-business electronic payment network. This hosted solution helps organizations transition from paper to electronic transactions in order to streamline processes, reduce costs and optimize working capital. With more than 300,000 enrolled vendors, new Paymode-X customers gain immediate benefits because many of their vendors are already part of the Paymode-X network. Our solution offers a lower cost settlement option than do traditional credit or debit card payment methods. We continually invest in furthering the value and ease of use of Paymode-X, which includes electronic payments and remittance delivery, online access to payment detail and reports, online payment approvals and turnkey vendor enrollment and support.

#### ***Digital Banking***

We offer payments, cash management and online banking solutions to financial institutions, including banks and credit unions. Our solutions enable banks of all sizes to offer their customers a host of capabilities including ACH and BACS payments, wires, international payments, check production, customer acquisition, balance and information reporting and other features that facilitate enterprise-wide cash management and interaction with their customers. Our solutions allow our bank customers to attract and service a full range of client segments from small businesses to multi-nationals. These solutions feature an intuitive user interface designed to simplify all aspects of cash management for customers of all sizes and sophistication, through both browser-based and mobile channels.

#### ***Legal Spend Management***

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Our hosted legal spend management solutions and services integrate with claims management and time and billing systems to automate legal invoice management processes and to provide insight into all areas of a company's outside legal spend. The combination of automated invoice routing and a sophisticated rules engine allows corporate legal and insurance claims departments to create more efficient processes for managing invoices generated by outside law firms and other service providers, while offering insight into important legal spend

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factors including expense monitoring and outside counsel performance. We are continuing to expand the capabilities of these offerings to facilitate the selection and retention of counsel, and the management and budgeting of litigation matters.

### ***Cyber Fraud and Risk Management***

Our cyber fraud and risk management solutions non-invasively monitor, replay and analyze user behavior to flag and can stop suspicious activity in real time. The solutions are highly configurable and create accountability by recording and analyzing each application interaction and screen view, reducing the risk of theft, information leakage, internal fraud and payments fraud, as well as decreasing the cost of regulatory compliance. Case management capabilities centralize risk management, speed investigations, and facilitate compliance with regulations pertaining to Anti Money Laundering (AML), the Health Insurance Portability and Accountability Act (HIPAA), and Know Your Customer (KYC).

### ***Financial Messaging Solutions***

Our cloud-based financial messaging solutions leverage the SWIFT global messaging network to allow corporations to exchange financial information including payment instructions, cash reporting and other messages related to financial transactions with their banks and counterparties around the world. Our solutions allow banks and corporations to achieve lower costs, rapid implementation, greater security and improved risk management while avoiding costly internal infrastructure.

### ***Payment and Document Automation***

Our payment automation solutions can generate a wide variety of domestic and international payment instructions along with consolidated bank reporting of cash activity. Our solutions can reduce administrative expenses and strengthen compliance and anti-fraud controls. Users are able to gather and access data via the web on payment and bank account information, including account totals and detailed transaction data, providing improved workflow, financial reporting and bank communications.

To help augment financial document workflow and delivery, we also offer a number of solutions designed to automate a wide variety of business documents and supply chain processes as well as related web-based delivery and document archive. Our products offer advanced design, output formatting and delivery capabilities to replace paper-based forms, as well as automating the labor-intensive accounts payable processing of invoices.

### ***Healthcare Solutions***

Our solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. Leveraging our extensive experience optimizing document-driven processes, our solutions are utilized across the acute care hospital enterprise and broader healthcare systems, accelerating the paper-to-electronic transition while helping our customers streamline data flows.

### ***Professional Services***

Our teams of service professionals draw on extensive experience to provide consulting, project implementation and training services to our customers. By easing the implementation of our products, these services help our customers accelerate the time to value. By improving the overall customer experience, these services help us retain customers and drive future revenue-generating arrangements from existing customers.

### ***Our Customers***

Our customers are in diverse industries including financial services, insurance, healthcare, technology, retail, communications, education, media, manufacturing and government. We provide our products and services



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to approximately 60 of the Fortune 100 companies and approximately 80 of the FTSE (Financial Times) 100 companies. Our customers include leading organizations such as Bank of America Merrill Lynch, BBVA Compass, British Airways, Catholic Health Initiatives, Cedars-Sinai Medical Center, Cigna Corporation, Franklin Templeton, Fidelity, Lloyds Bank, Capital One, Deere and Company, Target Corporation, Johnson Controls, Inc., State Farm Insurance, Sutter Health, Vodafone and Zurich American Insurance Company.

### **Our Competition**

The markets in which we participate are highly competitive. We believe our ability to compete depends on factors within and beyond our control, including:

our ability to develop new, innovative technology solutions that meet the evolving needs of our customers and the shifting dynamics of the markets we participate in;

our ability to attract and retain employees with the requisite domain knowledge and technical skill set necessary to develop and support our products;

the performance, reliability, features, ease-of-use and price of our offerings as compared to competitor alternatives;

our industry knowledge and expertise;

the execution of our sales and services organizations; and

the timing and market acceptance of new products as well as enhancements to existing products, by us and by our current and future competitors.

For our Paymode-X solution, our competitors include SunGard and AvidXchange in addition to ACH capabilities offered by banks.

For our digital banking payments and cash management solutions, we primarily compete with companies such as ACI Worldwide, Fiserv and FIS that offer a wide range of financial services, including electronic banking applications. We also encounter competition in our digital banking customer acquisition offerings from MeridianLink and D&H Corporation.

For our legal spend management solutions, we compete with a number of companies, including Wolters Kluwer ELM Solutions, LexisNexis and Computer Sciences Corporation (CSC).

Our cyber fraud and risk management products compete with NICE Actimize, Norkom-Deitca, SAS, Fiserv, Guardian Analytics and FairWarning.

For our financial messaging solutions, we compete with D+H Corporation, Eastnets, SunGard and SWIFT.

For our healthcare solutions, our primary competitors are FormFast and iMedConsent.

Our payment and document automation products compete primarily with products from companies that provide solutions to create, publish, manage and archive electronic documents and companies that offer payments software and services. Our products also compete with companies that provide a diverse array of accounts payable automation and workflow capabilities. We also compete with providers of enterprise resource planning (ERP) solutions and providers of traditional payment products, including check stock and check printing software and services. In addition, some financial institutions compete with us as outsourced check printing and electronic payment service providers.

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Although we believe that we compete favorably in each of the markets in which we participate, the markets for our products and services are intensely competitive and characterized by rapid technological change and a number of factors could adversely affect our ability to compete in the future, including those discussed in Item 1A. Risk Factors.

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### **Our Operating Segments**

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are generally organized by the type of product or service offered and by geography.

In recent years, we changed the method of allocating certain general and administrative expenses to our operating segments. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

Similar operating segments have been aggregated into three reportable segments as follows:

*Payments and Transactional Documents.* Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also incorporates our healthcare products and our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis, or ratably over the expected life of the customer relationship. This segment also includes the legacy operations of Intellinx, which we acquired in January 2015, however our cyber fraud and risk management solutions can be sold by any of our operating segments.

*Hosted Solutions.* Our Hosted Solutions segment provides customers predominately with SaaS technology offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as expense monitoring and outside counsel performance, are included within this segment. This segment incorporates our global financial messaging and Paymode-X solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

*Digital Banking.* Our Digital Banking segment provides solutions to banking and financial institution customers. Our Digital Banking products are now sold almost entirely on a subscription basis which has the effect of contributing to recurring subscription and transaction revenue and the revenue predictability of future periods, but which also delays revenue recognition over a longer period.

Periodically a sales person in one operating segment will sell products and services that are typically sold within a different operating segment. In such cases, the transaction is generally recorded by the operating segment to which the sales person is assigned. Accordingly, segment results can include the results of transactions that have been allocated to a specific segment based on the contributing sales resources, rather than the nature of the product or service. Conversely, a transaction can be recorded by the operating segment primarily responsible for delivery to the customer, even if the sales person is assigned to a different operating segment.

Our chief operating decision maker assesses segment performance based on a variety of factors that normally include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition and integration related expenses (including acquisition related contingent consideration), amortization of intangible assets, restructuring related charges, non-cash pension expenses, certain non-cash items related to our convertible notes, charges related to reserves established or released against our deferred tax assets and other non-core or non-recurring gains and losses that arise from time to time. There are no inter-segment sales; accordingly, the measure of segment

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revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments based on a percentage of the segment's revenues.

We do not track or assign our assets by operating segment.

The following represents a summary of our reportable segments.

	Fiscal Year Ended June 30,		
	2015	2014	2013
	(in thousands)		
Segment revenue:			
Payments and Transactional Documents	\$ 127,527	\$ 125,456	\$ 120,590
Hosted Solutions	126,178	107,360	67,504
Digital Banking	77,184	67,769	66,680
	\$ 330,889	\$ 300,585	\$ 254,774
Segment measure of profit:			
Payments and Transactional Documents	\$ 33,140	\$ 37,461	\$ 35,143
Hosted Solutions	15,329	8,344	4,577
Digital Banking	12,440	7,045	2,930
Total measure of segment profit	\$ 60,909	\$ 52,850	\$ 42,650

A reconciliation of the measure of segment profit to our GAAP loss before income taxes is as follows:

	Fiscal Year Ended June 30,		
	2015	2014	2013
	(in thousands)		
Total measure of segment profit	\$ 60,909	\$ 52,850	\$ 42,650
Less:			
Amortization of intangible assets	(30,383)	(26,242)	(19,549)
Share-based compensation expense	(27,025)	(22,821)	(18,031)
Acquisition and integration related expenses	(2,835)	(4,563)	(10,827)
Restructuring expense	(1,297)	(1,371)	(1,179)
Non-cash pension expense	(56)	(331)	
Loss on derivative instruments, net			(4,435)
Other non-core expenses	(76)		
Other expense, net	(15,553)	(14,544)	(6,922)
Loss before income taxes	\$ (16,316)	\$ (17,022)	\$ (18,293)

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We have presented geographic information about our revenues below. This presentation allocates revenue based on the point of sale, not the location of the customer. Accordingly, we derive revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here; particularly with respect to financial institution customers located in Australia for which the point of sale was the United States.

	2015		Fiscal Year Ended June 30, 2014		2013	
			(in thousands)			
North America	\$ 193,286	58.4%	\$ 171,641	57.1%	\$ 167,368	65.7%
United Kingdom	93,735	28.3%	96,719	32.2%	79,774	31.3%
Continental Europe	38,053	11.5%	29,047	9.7%	4,311	1.7%
Asia-Pacific and Middle East	5,815	1.8%	3,178	1.0%	3,321	1.3%
Total revenues from unaffiliated customers	\$ 330,889	100.0%	\$ 300,585	100.0%	\$ 254,774	100.0%

Long-lived assets, excluding deferred tax assets and intangible assets, which are based on geographical location, were as follows:

	Fiscal Year Ended June 30,	
	2015	2014
	(in thousands)	
Long-lived assets:		
North America	\$ 45,350	\$ 36,856
United Kingdom	8,573	6,611
Continental Europe	2,390	3,224
Asia-Pacific and Middle East	2,280	157
Total long-lived assets	\$ 58,593	\$ 46,848

A significant percentage of our revenues are generated by our international operations and our future growth rates and success are in part dependent on continued growth and success in international markets. As is the case with most international operations, the success and profitability of these operations is subject to numerous risks and uncertainties including exchange rate fluctuations. We do not currently hedge against exchange rate fluctuations. A number of other factors could also have a negative effect on our business and results from operations outside the US, including different regulatory and industry standards and certification requirements, reduced protection for intellectual property rights in some countries, import or export licensing requirements, the complexities of foreign tax jurisdictions and difficulties and costs of staffing and managing our foreign operations.

**Sales and Marketing**

As of June 30, 2015, we employed 337 sales and marketing employees worldwide, of whom 208 were focused on North American markets, 112 were focused on the United Kingdom and continental Europe markets and 17 were focused on Asia-Pacific and Middle East markets. We market and sell our products directly through our sales force and indirectly through a variety of channel partners and reseller relationships. We market and sell our products domestically and internationally, with an international focus on the United Kingdom and continental Europe. We also maintain an inside sales group which provides a cost effective channel into maintaining existing customers and expanding our customer base.

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### **Product Development and Engineering**

Our product development and engineering organization includes employees as well as strategic development partners who provide a flexible supplement to our internal resources. We have three primary development groups: product design and user experience, software engineering, and quality assurance. We expensed \$47.2 million, \$39.7 million, and \$33.0 million in product development and engineering costs in fiscal years 2015, 2014 and 2013, respectively.

Our product design and user experience team is extensively involved in the design of all of our products, driving the user-centered design process to ensure elegant, engaging, and easy-to-use products. Part of this process is user experience testing that is conducted to provide additional productivity gains for the end user.

Our software engineers have substantial experience in advanced software development techniques as well as extensive knowledge of the complex processes involved in business document workflow, cash management, payment, and invoicing applications. They maintain extensive knowledge of software development trends and best practices. Our technology focuses on providing business solutions utilizing industry standards, providing a path for extendibility and scalability of our products. Security, control and fraud prevention, as well as performance, data management and resource efficiencies are priorities in the technology we develop and deploy.

Our quality assurance engineers have extensive knowledge of our products and expertise in software quality assurance techniques. The quality assurance team participates in all phases of our product development processes. Members of the quality assurance group make use of both manual and automated software testing techniques to ensure high-quality software is being delivered to our customers. The quality assurance group members participate in alpha and beta releases, testing of new product releases, and performance and security testing for our products.

### **Backlog**

At the end of fiscal year 2015, our backlog was \$153.9 million, including deferred revenues of \$88.0 million. At the end of fiscal year 2014, our backlog was \$147.2 million, including deferred revenues of \$82.6 million. We do not believe that backlog is a meaningful indicator of sales that can be expected for any future period, and there can be no assurance that backlog at any point in time will translate into revenue in any specific subsequent period.

### **Proprietary Rights**

We use a combination of patents, copyrights, trademarks and trade secret laws to help establish and protect our proprietary rights in our technology and products. During the fiscal year ended June 30, 2015, we added two newly issued patents to our portfolio. In total, we currently hold 26 US patents as well as nine foreign equivalent patents in Europe, Israel and India. We expect to receive other patents, as we have more than 25 applications pending before the US Patent and Trademark Office. Two of our patents expired in 2015 and the earliest year of expiration of any of our remaining patents is 2019.

We intend to continue to file patent applications as we identify patentable technology. There can be no assurance, however, that our existing patent applications, or any others that we may file in the future, will issue or will be of sufficient scope and strength to provide meaningful protection of our technology or any commercial advantage to us, or that the issued patents will not be challenged, invalidated or circumvented. In addition, we rely upon a combination of copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to help protect our proprietary rights. Given the rapidly changing nature of the industry's technology, the creative abilities of our development, marketing and service personnel may be as or more important to our competitive position as are the legal protections and rights afforded by patents. We also enter into agreements with our employees and clients that seek to limit and protect our intellectual property and

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the distribution of proprietary information. However, there can be no assurance that the steps we have taken to protect our intellectual property will be adequate to deter misappropriation of proprietary information, and we may not be able to detect unauthorized use and take appropriate steps to enforce our proprietary rights.

### **Government Regulation**

Our US-based banking and financial institution customers are typically regulated by the Federal Financial Institutions Examination Council (FFIEC) or one or more of their member agencies which include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the National Credit Union Association. Our non US based banking and financial institution customers are normally subject to a similar regulatory oversight in their country of domicile. We are subject to periodic examination by the FFIEC in our capacity as a technical service provider, during which our operating practices are risk-assessed and compared against applicable laws and regulations. If we, as part of such an examination, were to receive a sufficiently unfavorable review from the FFIEC, our customers may be advised by the regulators to reassess their commercial relationships with us, including the continued use of our products.

Each of our operating segments provides services or products that may be subject to various federal, state or foreign laws or regulations, particularly in the area of data security and privacy. These laws and regulations govern the collection, processing, storage, use and disclosure of personal information as well as notification requirements in the event of security breaches. The legal and regulatory framework in these areas is complex and continually evolving, particularly with respect to data security, payment technology and payment methodologies. We may become subject to new or increased regulation in the future, and the cost of complying with current or future regulatory requirements could exceed our estimates. Our products and services must be designed to work effectively within this legal framework.

### **Employees**

As of June 30, 2015, we had approximately 1,500 full-time employees. None of our employees are represented by a labor union. We have not experienced any work stoppages and we believe that employee relationships are good. Our future success will depend in part on our continued ability to attract, retain and motivate highly-qualified technical and managerial personnel in a highly competitive market.

### **Item 1A. Risk Factors.**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before making an investment decision involving our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also impact our business operations.*

*If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.*

### **Risks Related To Owning Our Common Stock**

#### **Our common stock has experienced and may continue to undergo significant market price fluctuations**

The market price of our common stock has experienced and may continue to experience significant fluctuations due to a variety of factors, including:

general and industry-specific business, economic and market conditions;

changes in or our failure to meet analysts or investors estimates or expectations;

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actual or anticipated fluctuations in our operating results;

public announcements concerning us, our competitors or our industry;

acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;

adverse developments in patent or other proprietary rights; and

announcements of technological innovations by our competitors.

**If our operating results are below analyst or investor expectations or if our revenues are below anticipated levels, the market price of our common stock could be adversely affected**

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels which can be difficult to predict. A decline in revenues without a corresponding and timely slowdown in expense growth could adversely affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

Quarterly or annual operating results that are below the expectations of public market analysts could adversely affect the market price of our common stock. Factors that could cause fluctuations in our operating results include:

a change in customer demand for our products, which is highly dependent on our ability to continue to offer innovative technology solutions in very competitive markets;

overall economic conditions, which may affect our customers' and potential customers' budgets for information technology expenditures;

foreign exchange volatility, which can have a significant effect on our total revenues and costs when our foreign operations are translated to U.S. dollars;

the timing of customer orders;

the timing of product implementations, which are highly dependent on customers' resources and discretion;

the incurrence of costs relating to the integration of software products and operations in connection with acquisitions of technologies or businesses; and

the timing and market acceptance of new products or product enhancements by either us or our competitors.

**Our mix of products and services could have a significant effect on our results of operations and the market price of our common stock**

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscriptions and transactions, service and maintenance and other revenue streams. If software license revenues or our recurring



revenues were to significantly decline in any future period, or if the mix of our products and services in any given period did not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

**Risks Related To Our Business**

**The markets in which we compete are extremely competitive and we may not be able to compete effectively**

The markets in which we compete are intensely competitive and characterized by rapid technological change. There is no assurance that we will be able to maintain our current market share or our customer base.

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We compete with a wide range of companies ranging from small start-up enterprises with limited resources, which compete principally on the basis of technology features or specific customer relationships, to large companies which can leverage significantly larger customer bases and greater financial resources. Many of our competitors have longer operating histories, significantly greater financial, technical, and sales and marketing resources, greater brand recognition and a larger installed customer base than we do. We anticipate that the markets in which we compete will continue to attract new competitors and new technologies and we may not be able to compete successfully with them.

To compete successfully, we need to maintain a successful research and development function. If we fail to enhance our current products and develop new, innovative solutions or if we fail to bring new solutions to market quickly enough, our products could become less competitive or obsolete.

### **We continue to make significant investments in our existing products and our new product offerings, which may adversely affect our operating results; these investments may not be successful**

Given the highly competitive and rapidly evolving technology environment we operate within, we believe that it is important to constantly enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. This includes developing and enhancing our products to include what we believe is necessary to meet the future needs of our customers.

Our operating results have recently been affected by increases in product development expenses as we have continued to make investments in a number of our products, and as we have funded new product development based on market opportunities. We expect to continue to make these investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products.

Investments in existing products and new product offerings can have a negative impact on our operating results and any new product enhancement or offering may not be accepted in the marketplace or generate material revenues for us.

### **Acquisitions could disrupt our business and harm our financial condition**

An active acquisition program is an important element of our corporate strategy. We have been a highly acquisitive company and we expect to continue to make acquisitions in the future. Any acquisition or strategic investment we have made or may make in the future may entail numerous risks, including the following:

difficulties integrating acquired operations, personnel, technologies or products;

entrance into markets and operating geographies in which we have no or limited prior experience or knowledge;

failure to realize anticipated revenue increases for any number of reasons, including if a larger than expected number of acquired customers decline to renew software maintenance contracts or subscription based contracts, if we are unsuccessful in selling the acquired products to our customer base or if the terms of the acquired contracts do not permit us to recognize revenue on a timely basis;

costs incurred to combine the operations of companies we acquire, such as integrations costs, transitional employee expenses and employee retention or relocation expenses may be higher than expected;

write-offs related to existing or acquired assets such as deferred tax assets, goodwill or other intangible assets;

inability to retain key personnel of the acquired company;

inadequacy of existing operating, financial and management information systems to support the combined organization, including the difficulty in integrating an acquired company's accounting, financial reporting and other administrative systems to permit effective management;

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difficulties implementing controls, procedures and policies appropriate for a public company at companies that, prior to the acquisition, may have lacked such controls, policies and procedures;

in the case of foreign acquisitions, challenges integrating operations across different cultures and languages and addressing the particular regulatory, economic, currency and political risks associated with different countries or regions;

diversion of management's focus from our core business concerns;

dilution to existing stockholders and our earnings per share;

incurrence of substantial debt;

exposure to litigation from third parties, including claims related to intellectual property or other assets acquired or liabilities assumed; and

failure to realize anticipated benefits of the transaction due to the above factors or other factors.

Any such difficulties encountered as a result of any merger, acquisition or strategic investment could have a material adverse effect on our business, operating results and financial condition.

### **As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, which may adversely affect our future operating results**

The carrying value of our intangible assets, including goodwill, represents a significant portion of our total assets. We periodically review our goodwill and our other intangible assets for impairment and could, in any future period, be subject to impairment charges with respect to these assets or intangible assets arising as a result of acquisitions in future periods. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

### **The failure of our cyber-fraud and risk management products to prevent a security breach or detect a cyber-fraud, or the failure of our customers to take action based on the risks identified by these products could harm our reputation and adversely impact our operating results**

Our cyber-fraud and risk management products provide our customers the ability to configure a multitude of settings and establish certain rule-based alerts and it is possible that a customer could misconfigure these products or fail to configure these products in an optimal manner, which could cause threats to go undetected. Similarly, if our cyber-fraud and risk management products detect threats or otherwise alert a customer to suspicious activity but the customer does not take action to investigate those threats or alerts, customers may erroneously believe that these products were not effective.

Any real or perceived defects, errors or vulnerabilities in our cyber-fraud and risk management products or any failure of these products to prevent, detect or alert a customer to a threat could result in:

a loss of customers or potential customers;

delayed or lost revenue and harm to our financial condition and results or operations;

a delay in attaining, or the failure to attain, market acceptance for our cyber-fraud and risk management solutions;

an increase in warranty claims;

harm to our reputation;

litigation, regulatory inquiries, or investigations that may be expensive and that would further harm our reputation.

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### **Weakness or deterioration in domestic and global economic conditions could have a significant adverse impact on our business, financial condition and operating results**

Our business, financial condition and operating results are significantly affected by general economic conditions. The US and global economies have experienced deterioration in the recent past and prospects for sustained economic recovery remain uncertain. Prolonged economic weakness or any further downturn in the US and global economies could result in a variety of risks to our business, including:

increased volatility in our stock price;

increased volatility in foreign currency exchange rates;

delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of continuing economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;

pricing pressures for our products and services, including reductions in the duration or renewal rates for our subscription contracts and software maintenance contracts;

increased credit risk associated with our customers or potential customers, particularly those that may operate in industries or geographic regions most affected by the economic downturn; and

impairment of our goodwill or other assets.

To the extent that economic conditions remain uncertain or deteriorate, or any of the above risks occur, our business and operating results could be significantly and adversely affected.

### **We face risks associated with our international operations that could harm our financial condition and results of operations**

A significant percentage of our revenues have been generated by our international operations and our future growth rates and success are in part dependent on our continued growth and success in international markets. As is the case with most international operations, the success and profitability of these operations are subject to numerous risks and uncertainties that include, in addition to the risks our business as a whole faces, the following:

currency exchange rate fluctuations, particularly with the British Pound Sterling, the Swiss Franc, the European Euro, the Israeli Shekel and the Australian Dollar;

difficulties and costs of staffing and managing foreign operations;

differing regulatory and industry standards and certification requirements;

the complexities of tax laws in foreign jurisdictions;

reduced protection for intellectual property rights in some countries; and

import or export licensing requirements.

**We are subject to the political, economic and security conditions in Israel**

We acquired Intellinx in January 2015, who are headquartered in Tel Aviv, Israel. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its neighbors. During the past several years, Israel has experienced periodic armed conflicts which have involved missile strikes into Israel and which at times have disrupted day-to-day civilian activity in Israel.

There can be no assurance that future attacks will not occur and that such attacks will not hit our premises or major infrastructure and transport facilities in the country, which could have an adverse effect on our ability to conduct business in Israel. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect global as well as local economic conditions and adversely impact our operating results.

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### **Our business and operating results are subject to fluctuations in foreign currency exchange rates**

We conduct a substantial portion of our operations outside of the US, principally in the United Kingdom and in continental Europe and, to a lesser extent in the Asia-Pacific and Middle East regions. During the twelve months ended June 30, 2015, approximately 43% of our revenues and 42% of our operating expenses were attributable to customers or operations located outside of North America. During the twelve months ended June 30, 2015 as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound Sterling to the US Dollar decreased. Future appreciation of the US Dollar against the British Pound Sterling, Swiss Franc, European Euro or Australian Dollar will have the impact of reducing both our revenues and operating expenses associated with our operations in those regions.

### **We may have larger than anticipated tax liabilities**

The determination of our provision for income taxes requires significant judgment and estimation and there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to tax in multiple US and foreign tax jurisdictions and the determination of our tax liability is always subject to audit and review by the applicable domestic or foreign taxing authority. In light of fiscal challenges in US federal and state governments and in many international locations, taxing authorities are increasingly focused on ways to increase revenues which may make resolving tax disputes more difficult. While we have established tax reserves using assumptions and estimates that we believe to be reasonable, these reserves may prove insufficient in the event that a taxing authority asserts a tax position that is contrary to our position.

### **A significant percentage of our revenues to date have come from our payment and document management offerings and our future performance will depend on continued market acceptance of these solutions**

A significant percentage of our revenues to date have come from the license and maintenance of our payment and document management offerings and sales of associated products and services. Any significant reduction in demand for our payment and document management offerings could have a material adverse effect on our business, operating results and financial condition. Our future performance could depend on the following factors:

retaining and expanding our software maintenance and subscriptions and transactions customer bases, which are significant sources of our recurring revenue;

continued market acceptance of our payment and document management offerings;

our ability to demonstrate the value of our solutions as compared to solutions from other vendors such as enterprise resource planning software vendors that offer a broader enterprise application solution, and

our ability to introduce enhancements to meet the market's evolving needs for secure payments and cash management solutions.

### **Our future financial results will be affected by our success in selling our products in a subscription and transaction model, which carries with it certain risks**

A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues; however, we are offering a growing number of our products, including our newer cyber fraud and risk management products, under a subscription and transaction based revenue model. We believe a subscription based revenue model has certain advantages over a perpetual license model, including better predictability of revenue; however, it also presents a number of risks to us, including the following:

arrangements entered into on a subscription basis generally delay the timing of revenue recognition and can require the incurrence of up-front costs, which may be significant;





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subscription based revenue arrangements often include specific performance requirements or service levels that we may be unable to consistently achieve, subjecting us to penalties or other costs. Further, a material breach by us, such as a persistent failure to achieve required service levels, might permit the customer to exit the contract prior to its expiration, without additional compensation to us;

customer retention is critical to our future growth rates. Customers in a subscription arrangement may elect not to renew their contract upon expiration, or they may attempt to renegotiate pricing or other contractual terms at the point of (or prior to) renewal on terms that are less favorable to us; and

there is no assurance that the solutions we offer on a subscription basis, including new revenue models or new products that we may introduce, will receive broad marketplace acceptance.

**Because we recognize subscription revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscription based offerings will not be immediately reflected in our operating results and may adversely affect revenue in the future**

We recognize subscription revenue over the term of our customer agreements. As a result, most of our subscription revenue arises from agreements entered into during previous periods. A shortfall in orders for our subscription based solutions in any one period would most likely not significantly reduce our subscription revenue for that period, but could adversely affect revenue in future periods. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in these orders. Accordingly, the effect of downturns in sales of our subscription based solutions will not be fully reflected in our operating results until future periods. A subscription revenue model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any one period, as revenue is generally recognized over the applicable customer term.

**Large and complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, can delay the timing of our revenue recognition and, in the short-term, may adversely affect our operating results, financial condition and the market price of our stock**

Large and complex customer contracts can delay the timing of our revenue recognition. These arrangements require significant implementation work, product customization and modification, systems integration and user acceptance testing. This results in the recognition of revenue over the period of project completion which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or slow down a long-term project due to their own staffing or other challenges, could adversely affect our operating results, financial condition and the market price of our common stock. Large customer opportunities are very competitive and take significant time and effort to consummate. When competing for these customer opportunities, we face greater sales costs, longer sales cycles and less predictability with respect to these orders than with orders in other areas of our business. If we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

**If our products and services do not comply with laws, regulations and industry standards to which we and our customers are subject, our business could be adversely affected**

Our software products and SaaS offerings facilitate the transmission of cash, business documents and confidential information including, in some cases, personally identifiable information related to individuals and corporations. Our software products and certain of our SaaS offerings store and transmit this data electronically, and therefore our products must operate within the laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that our products comply with current regulatory requirements, the interpretation and application of these requirements continues to evolve and may evolve in ways that we cannot predict; so there can be no assurance that future legal or regulatory actions will not adversely impact us. To the extent that current or future regulatory or legal developments mandate a change in any of our products or services, require us or our customers to comply with any industry specific licensing or

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compliance requirements, alter the demand for or the competitive environment of our products and services or require us to make material changes to how we operate our business, including any changes to our internal operating, financial or management information systems, we might not be able to respond to such requirements in a timely or cost effective manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

### **Security or data breaches could have an adverse effect on our business**

In the course of providing services to our customers, we collect, store, process and transmit highly sensitive and confidential information. Certain of our solutions also facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. Our products and services, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks, distributed denial of service attacks and other disruptive problems which could result in the theft, destruction or misappropriation of confidential information. Security risks in recent years have increased significantly given the increased sophistication and activities of hackers, organized crime and other external parties. We may need to spend significant capital or allocate significant resources to ensure effective ongoing protection against the threat of security breaches or to address security related concerns. Despite our efforts, a security breach or computer virus could still occur which could have a significant negative impact on our business including reputational harm, the loss of customers and material financial liability to us.

### **Defects or disruptions in our products or services could diminish demand for our solutions and have a material adverse effect on our future financial results**

Our software products are complex. Despite testing prior to their release and throughout the lifecycle of a product or service, software and SaaS offerings can contain undetected errors or defects that can impact their function, performance and security. Any unanticipated performance problems or defects in our products or services could result in additional development costs, diversion of technical and other resources from our other development efforts, service disruptions for our SaaS offerings, negative publicity and reputational harm to us and our products and exposure to potential liability claims. As a result, any error or defect in our products or services could adversely affect our future financial results.

### **We rely on certain third-party hardware and software which could cause errors, interruptions or failures to our solutions or be difficult to replace**

We rely on third party hardware and software to deliver certain of our solutions. These third party products may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of these products could result in delays in our ability to provide our solutions until equivalent technology is either developed by us or acquired from another third party, if available, which may not be possible on a cost effective basis. In addition, errors or defects in third-party products used in conjunction with our solutions could adversely affect the operation of our products.

### **Catastrophic events may disrupt our business, including our third party data centers**

We are a highly automated business and we rely on our network infrastructure, various software applications and many internal technology systems and data networks for our customer support, development, sales and marketing and accounting and finance functions. Further, our SaaS offerings provide services to our customers from third party data center facilities in different US and international locations over which we have no control. A disruption or failure of these systems or data centers in the event of a natural disaster, telecommunications failure, power outage, cyber-attack, war, terrorist attack, or other catastrophic event could cause system interruptions, reputational harm, delays in product development, breaches of data security and loss of critical data. Such an event could also prevent us from fulfilling customer orders or maintaining certain service level requirements, particularly in respect of our SaaS and hosted offerings. While we have developed certain

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disaster recovery plans and maintain backup systems to reduce the potentially adverse effect of such events, a catastrophic event that resulted in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our business, operating results and financial condition could be adversely affected.

### **We could incur substantial costs resulting from warranty claims or product liability claims**

Our product agreements typically contain provisions that afford customers a degree of warranty protection in the event that our products fail to conform to written specifications. These agreements normally contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. A court, however, might interpret these terms in a limited way or conclude that part or all of these terms are unenforceable. Furthermore, some of our agreements are governed by non-US law and there is a risk that foreign law might provide us less or different protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims.

Although we have not experienced any material warranty or product liability claims to date, a warranty or product liability claim, whether or not meritorious, could harm our reputation, result in substantial financial costs or divert management's attention, which could have an adverse effect on our business, operating results and financial condition.

### **We could be adversely affected if we are unable to protect our proprietary technology and could be subject to litigation regarding intellectual property rights, which could cause serious harm to our business**

We rely upon a combination of patent, copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. However, there is no assurance that our patents, pending applications for patents that may issue in the future, or other intellectual property will be of sufficient scope and strength to provide meaningful protection to our technology or any commercial advantage to us, or that the patents will not be challenged, invalidated or circumvented. We enter into agreements with our employees and customers that seek to limit and protect the distribution of proprietary information. Despite our efforts to safeguard and maintain our proprietary rights, there is no assurance that such rights will remain protected or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

Litigation involving patents and other intellectual property rights is common in the United States and in other countries where we operate. We may be a party to litigation in the future to protect our intellectual property rights or as a result of an alleged infringement of the intellectual property rights of others. Any such claims, whether or not meritorious, could result in reputational harm to us, require us to spend significant sums in litigation, pay damages, delay product implementations, develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. In addition, under many of our customer contracts, we are required to indemnify our customers for third-party intellectual property infringement claims, which would increase the costs to us of any such claims. These claims could have a material adverse effect on our business, operating results and financial condition.

### **Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could adversely affect our operating results**

Our success depends upon the efforts and abilities of our executive officers and technical and sales employees who are skilled in e-commerce, payment methodology and regulation, business banking technologies, and web, database and network technologies. Our success and future growth depends to a significant degree on the skills and continued services of our management team. Our current key employees and employees whom we seek to hire in order to support our growth are in high demand within the marketplace and many competitors,

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customers and industry organizations are able to offer considerably higher compensation packages than we currently provide, including base salary, bonus and equity incentives. The loss of one or more of our key employees or our failure to consistently attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. We do not maintain key man life insurance policies on any of our employees and our employees are generally free to terminate their employment with us at any time. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

### **We engage off-shore development resources which may not be successful and which may put our intellectual property at risk**

In order to optimize our research and development capabilities and to meet development timeframes, we contract with off-shore third-party vendors for certain development activities. While our experience to date with these resources has been positive, there are a number of risks associated with off-shore development activities including:

less efficient and less accurate communication and information flow as a consequence of time, distance and language barriers between our primary development organization and the off-shore resources, resulting in delays or deficiencies in development efforts;

disruption due to political or military conflicts;

misappropriation of intellectual property, which we may not readily detect; and

currency exchange rate fluctuations that could adversely impact the cost advantages intended from these agreements.

To the extent that these or unforeseen risks occur, our operating results and financial condition could be adversely impacted.

### **Changes in financial accounting standards may cause unexpected financial reporting fluctuations and affect our reported results of operations**

Changes in accounting standards or practices could adversely affect our reported results of operations. New accounting pronouncements, such as the upcoming changes in US GAAP related to revenue recognition, and varying interpretations of accounting pronouncements have occurred and will occur in the future. Changes to existing accounting rules or practices may adversely affect our reported results of operations or the way we conduct our business in future periods.

### **If we fail to maintain appropriate and effective internal control over financial reporting, our ability to produce accurate and timely financial statements could be impaired, which could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price**

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that we re-evaluate regularly. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. However, despite our efforts, any failure to maintain or implement the necessary internal controls could cause us to fail to meet our financial reporting obligations or result in misstatements in our financial statements, either of which could cause investors to lose confidence in our reported financial information and lead to a decline in the trading price of our common stock.

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### **Certain anti-takeover provisions contained in our charter and under Delaware law could hinder a takeover attempt**

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short term, to the interests of our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the limitation of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

### **Risks Related to our Indebtedness**

In December 2012, we issued, at par value, \$189.8 million aggregate principal amount of 1.50% convertible senior notes due in December 2017. In connection with the pricing of the notes, we purchased convertible note hedge transactions with a strike price equal to the initial conversion price of the notes and we sold warrants with a strike price of \$40.04 per share with certain counterparties. The note hedges and the warrants each cover approximately 6.3 million shares of our common stock.

### **Servicing the notes or future indebtedness will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our obligations under the notes or future indebtedness, resulting in a default under such indebtedness**

Our ability to make scheduled payments of interest and, upon maturity or early conversion, the principal balance of the notes, depends on our future performance which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt or equity financing on terms that may not be favorable to us or available to us at all. Our ability to refinance the notes will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes or future indebtedness.

### **Our level of indebtedness may limit our financial flexibility**

Our level of indebtedness affects our operations in several ways, including:

a portion of our cash flows from operating activities must be used to service our indebtedness and is not available for other purposes;

we may be at a competitive disadvantage as compared to similar companies that have less debt; and

additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and contain restrictive covenants, or may not be available to us.

The factors that will affect our ability to obtain additional financing may be beyond our control and include financial market conditions, the value of our assets and our performance at the time we need financing.

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### **The accounting for the notes will result in our having to recognize interest expense significantly more than the stated interest rate of the notes and may result in volatility to our consolidated statement of operations**

Upon issuance of the notes we were required to establish a separate initial value for the conversion option and to bifurcate this value from the value attributable to the balance of the notes, or the debt component. As a result, for accounting purposes, we were required to treat the notes as having been issued with a discount to their face principal amount, which is referred to as an original issue discount. We are accreting the original issue discount to interest expense ratably over the term of the notes, which results in an effective interest rate in our consolidated statement of operations that is in excess of the stated coupon rate of the notes. This will reduce our earnings and could adversely affect the price at which our common stock trades, but will have no effect on the amount of cash interest paid to holders or on our cash flows.

Certain derivative instruments issued in connection with the notes were classified within stockholders' equity at June 30, 2015. However, if we do not continue to satisfy all of the criteria required for equity classification, these instruments would be reclassified out of equity and be subject to re-measurement at fair value. Changes in fair value resulting from any such re-measurement would be reflected in earnings which could have a material impact on our financial statements.

### **The conditional conversion feature of the notes, if triggered, and the requirement to repurchase the notes upon a fundamental change may adversely affect our financial condition and operating results**

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at their option during specified periods. If one or more holders elect to convert their notes, we would be required to settle the principal portion of the notes in cash. Additionally, if we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders of the notes may require us to repurchase for cash all or part of their notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Either of these events could adversely affect our liquidity. Even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal balance of the notes to a current rather than long-term liability, which would result in a material reduction of our working capital.

### **We may be subject to significant future write-offs with respect to intangible assets or deferred tax assets**

Certain of our assets, such as intangible assets and deferred tax assets, are subject to periodic tests of recoverability based on a variety of factors. Those factors typically include, at a minimum, projections of future income levels and cash flows. The accounting for the notes will result in the recognition of a significant level of interest expense, particularly non-cash interest expense, as the carrying value of debt is accreted to par and as we amortize our debt issue costs, including the underwriters' discount. During the year ended June 30, 2015, we established a reserve against a portion of our US-based deferred tax assets, resulting in a non-cash expense charge of \$16.0 million. We could be subject to future impairment charges with respect to these assets which would have a material adverse effect on our consolidated statement of operations.

### **The convertible note hedge and warrant transactions may affect the value of the notes and our common stock**

The outstanding warrants could have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. However, subject to certain conditions, we may elect to settle the warrants in cash.

From time to time, the counterparties to the convertible note hedge transactions or their affiliates may modify their respective hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the notes.

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None.

**Item 2. Properties.**

The following table sets forth the location, operating segment(s) and approximate square footage of each of the principal properties used by us during fiscal year 2015. Our Portsmouth, New Hampshire facility serves as our corporate headquarters and is used by employees associated with all of our operating segments in addition to our management, administrative, sales and marketing and customer support teams. All properties, except as noted below, are leased under operating leases.

Location	Operating Segment(s)	Approximate Square Feet
<b><u>North America:</u></b>		
Alpharetta, Georgia	Payments and Transactional Documents and Digital Banking	26,000
Englewood Cliffs, New Jersey	Payments and Transactional Documents	4,000
Great Neck, New York	All operating segments	13,000
Marlton, New Jersey	Hosted Solutions	7,000
Morrisville, North Carolina	Payments and Transactional Documents	8,000
Portland, Maine	Hosted Solutions	27,000
Portsmouth, New Hampshire	All operating segments	85,000
Providence, Rhode Island	Digital Banking	15,000
Wilton, Connecticut	Hosted Solutions	13,000
<b><u>Europe:</u></b>		
Geneva, Switzerland	Hosted Solutions	16,000
Hertford, England	Payments and Transactional Documents	12,000
London, England	All operating segments	6,000
Reading, England(1)	All operating segments	28,000
<b><u>Asia-Pacific and Middle East:</u></b>		
Melbourne, Australia	Payments and Transactional Documents and Digital Banking	4,000
Sydney, Australia	Payments and Transactional Documents	2,000
Or-Yehuda, Israel	Payments and Transactional Documents	9,000

(1) We own 16,000 square feet in Reading, England currently used as our European headquarters.

**Item 3. Legal Proceedings.**

We are, from time to time, a party to legal proceedings and claims that arise in the ordinary course of our business. We do not believe that there are claims or proceedings pending against us for which the ultimate resolution would have a material effect on, or require disclosure in, our financial statements.

**Item 4. Mine Safety Disclosures.**

Not applicable



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**Executive Officers and Other Key Employees of the Registrant**

Our executive officers and other key employees and their respective ages as of August 28, 2015, are as follows:

	Age	Positions
A. Eberle	54	President, Chief Executive Officer and Director
D. Booth	46	Chief Financial Officer and Treasurer
Brieger	43	Vice President, Human Resources
J. DeLuca	54	Managing Director, Digital Banking
annon	47	Group Sales Director, Europe
Kelly	57	General Manager, Legal Solutions
Mason	45	Chief Information Officer
J. Mintzer	53	Executive Vice President, Product Strategy and Customer Delivery
incomb	41	General Manager, Cloud Payment Solutions
Morgan	45	Senior Vice President, Global Controller
E M. ger	36	Chief Marketing Officer

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ss)	(244	)	—	—	—	—	3,048	—	—	—	3,048
e, June	\$6,765	28,409,694	\$3	18,000,000	\$2	\$111,539	\$187,502	\$(9,212)	417,698	\$(1,949)	\$28,409,694
6											

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

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

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	\$ 2,804	\$ (2,197 )
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation of project assets	9,179	7,916
Depreciation of property and equipment	1,552	1,555
Amortization of deferred financing fees	635	562
Amortization of intangible assets	1,211	2,024
Provision for bad debts	2,932	83
Unrealized gain on interest rate swaps	(153 )	(184 )
Stock-based compensation expense	758	971
Deferred income taxes	(1,365 )	(2,006 )
Unrealized foreign exchange (gain) loss	(791 )	635
Changes in operating assets and liabilities:		
Restricted cash	(3,361 )	(694 )
Accounts receivable	(8,701 )	2,426
Accounts receivable retainage	(484 )	1,821
Federal ESPC receivable	(50,167 )	(29,625 )
Inventory, net	(1,183 )	(1,257 )
Costs and estimated earnings in excess of billings	22,646	(2,787 )
Prepaid expenses and other current assets	(562 )	(3,056 )
Project development costs	(1,360 )	(3,630 )
Other assets	459	(1,403 )

Accounts payable, accrued expenses and other current liabilities	(8,254	)	(13,372	)
Billings in excess of cost and estimated earnings	(6,041	)	5,589	
Other liabilities	(1,908	)	(219	)
Income taxes payable	2,432		(112	)
Cash flows from operating activities	(39,722	)	(36,960	)
Cash flows from investing activities:				
Purchases of property and equipment	(2,212	)	(643	)
Purchases of project assets	(20,813	)	(13,640	)
Proceeds from sale of assets	—		852	
Cash flows from investing activities	\$ (23,025	)	\$ (13,431	)

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

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AMERESCO, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from financing activities:		
Payments of financing fees	\$(749 )	\$(1,202 )
Proceeds from exercises of options	470	605
Repurchase of common stock	(1,949 )	—
Proceeds from senior secured credit facility, net	2,900	3,500
Proceeds from long-term debt financing	3,013	—
Proceeds from Federal ESPC projects	38,759	40,870
Proceeds from sale-leaseback financing	11,008	7,581
Non-controlling interest	—	(116 )
Proceeds from investment by redeemable non-controlling interest, net	6,519	—
Restricted cash	3,369	(25 )
Payments on long-term debt	(6,129 )	(6,066 )
Cash flows from financing activities	57,211	45,147
Effect of exchange rate changes on cash	(832 )	801
Net decrease in cash and cash equivalents	(6,368 )	(4,443 )
Cash and cash equivalents, beginning of period	21,645	23,762
Cash and cash equivalents, end of period	\$15,277	\$19,319
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$3,241	\$2,856
Cash paid for income taxes	\$2,004	\$933
Non-cash Federal ESPC settlement	\$44,234	\$26,320
Accrued purchases of project assets	\$9,766	\$8,827

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 operating assets; and 3) direct payment for PV equipment and systems.

The condensed consolidated financial statements as of June 30, 2016, and for the three and six months ended June 30, 2016 and 2015, 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, 2015, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on March 4, 2016. 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

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Ameresco, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company prepares its financial statements in conformity with GAAP.

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions used in these condensed consolidated financial statements relate to management’s estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, project development costs, fair value of derivative financial instruments and stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and any potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.

The Company is self-insured for employee health insurance. The maximum exposure in fiscal year 2016 under the plan is \$100 per covered participant, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported claims, is determined by management and reflected in the Company’s consolidated balance sheets in accrued expenses and other current liabilities. The liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company’s estimated accrual for this liability could be different than its ultimate obligation if variables such as the frequency or amount of future claims differ significantly from management’s assumptions.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit, overnight repurchase agreements and amounts invested in highly liquid money market funds. Cash equivalents consist of short term investments with original maturities of three months or less. The Company maintains accounts with financial institutions and the balances in such accounts, at times, exceed federally insured limits. This credit risk is divided among a number of financial institutions that management believes to be of high quality. The carrying amount of cash and cash equivalents approximates their fair value measured using level one inputs per the fair value hierarchy as defined in Note 6.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

**Restricted Cash**

Restricted cash consists of cash and cash equivalents held in an escrow account in association with construction draws for energy savings performance contracts (“ESPCs”), construction of project assets, operations and maintenance (“O&M”) reserve accounts and cash collateralized letters of credit as well as cash required under term loans to be maintained in debt service reserve accounts until all obligations have been indefeasibly paid in full. These accounts are primarily invested in highly liquid money market funds. The carrying amount of the cash and cash equivalents in these accounts approximates their fair value measured using level one inputs per the fair value hierarchy as defined in Note 6.

Restricted cash also includes funds held for clients, which represent assets that, based upon the Company’s intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds to third parties, primarily utility service providers, relating to the Company’s enterprise energy management services. As of June 30, 2016 and December 31, 2015, the Company classified the non-current portion of restricted cash of \$17,855 and \$13,515, respectively, in other assets on its consolidated balance sheets.

**Accounts Receivable**

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

Changes in the allowance for doubtful accounts are as follows:

	Six Months Ended June 30,	
	2016	2015
Allowance for doubtful accounts, beginning of period	\$3,729	\$2,851
Charges to costs and expenses	1,852	83
Account write-offs and other	376	(256 )
Allowance for doubtful accounts, end of period	\$5,957	\$2,678

During the six months ended June 30, 2016, the Company reserved for certain assets related to a customer who declared bankruptcy. Of this amount, \$200 was recorded as an allowance for doubtful accounts in accounts receivable, net. In addition, the Company recorded a \$476 charge to write-off costs and estimated earnings in excess of billings and a \$325 charge for project costs incurred during the first quarter of 2016. The Company has an additional exposure of \$2,952 for the remaining receivables. During the three months ended June 30, 2016, the Company also reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts. This reserve included \$1,655 for doubtful accounts in accounts receivable, net and \$279 reserved against accounts receivable retainage, net.

**Accounts Receivable Retainage**

Accounts receivable retainage represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from 5% to 10% of the total invoice. The Company classifies as a current asset those retainages that are expected to be billed in the next twelve months. During the year ended December 31, 2015, based upon an evaluation by management, the Company recorded a reserve totaling \$1,282 against the accounts receivable retainage balance for amounts determined to be potentially uncollectible. For the three months ended June 30, 2016, the Company recorded an additional reserve of \$279 against the remaining accounts receivable retainage, net balance.

**Inventory**

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



Prepaid Expenses

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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

**Federal ESPC Receivable**

Federal ESPC receivable represents the amount to be paid by various federal government agencies for work performed and earned by the Company under specific ESPCs. The Company assigns certain of its rights to receive those payments to third-party investors that provide construction and permanent financing for such contracts. The receivable is recognized as revenue as each project is constructed. Upon completion and acceptance of the project by the government, typically within 24 months of construction commencement, the assigned ESPC receivable from the government and corresponding ESPC liability are eliminated from the Company's condensed consolidated financial statements.

**Project Development Costs**

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

**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 to cost of revenues in the Company's consolidated statements of income (loss) on a straight line basis over the lives of the related assets or the terms of the related contracts.

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

Capitalized interest is included in project assets, net in the Company's consolidated balance sheets. Capitalized interest is amortized to cost of revenues in the Company's consolidated statements of income (loss) on a straight line basis over the useful life of the associated project asset. There was \$163 and \$134 in interest capitalized for the three months ended June 30, 2016 and 2015, respectively. There was \$327 and \$248 in interest capitalized for the six months ended June 30, 2016 and 2015, 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. Examples of such triggering events applicable to the Company's assets include a significant decrease in the market price of a long-lived asset or asset group or a current-period operating or cash flow

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group.

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

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

The Company did not receive any Section 1603 grants during the six months ended June 30, 2016 and June 30, 2015. 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 \$8,015 and \$8,291 recorded in the accompanying consolidated balance sheets as of June 30, 2016 and December 31, 2015, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

**Deferred Financing Fees**

Deferred financing fees relate to the external costs incurred to obtain financing for the Company. Deferred financing fees are amortized over the respective term of the financing using the effective interest method, with the exception of the Company’s revolving credit facility, as discussed in Note 11, for which deferred financing fees are amortized on a straight-line basis over the term of the agreement. Deferred financing fees are presented on the consolidated balance sheets as a reduction to long-term debt and capital lease liabilities.

**Goodwill and Intangible Assets**

The Company has classified as goodwill the amounts paid in excess of fair value of the net assets (including tax attributes) of companies acquired in purchase transactions. The Company has recorded intangible assets related to customer contracts, customer relationships, non-compete agreements, trade names and technology, each with defined useful lives. The Company assesses the impairment of goodwill and intangible assets that have indefinite lives on an annual basis (December 31<sup>st</sup>) and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. 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 under-performance 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.

See Note 3 for additional disclosures.

**Other Assets**

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

**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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the consolidated statements of income (loss). As of June 30, 2016 and December 31, 2015, the Company had no ARO liabilities recorded.

Federal ESPC Liabilities

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

Sale-Leaseback

During the first quarter of 2015, the Company entered into an agreement with an investor which gives the Company the option to sell and contemporaneously lease back solar photovoltaic (“solar-PV”) projects. The lender has committed to provide up to a maximum combined funding amount of \$50,000 through December 31, 2016 on certain projects. During the quarter ended June 30, 2016, the Company sold three solar-PV projects and in return received \$7,467 under the agreement. During the quarter ended March 31, 2016, the Company sold two solar-PV projects and in return received \$3,541 under the agreement. During the quarter ended March 31, 2015, the Company sold two solar-PV projects and in return received \$7,581 under the agreement. During the quarter ended December 31, 2015, the Company sold an additional project and in return received \$4,925 under the agreement.

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

For solar-PV projects that the Company has determined not to be integral equipment, the Company then determines if the leaseback should be classified as a capital lease or an operating lease. All solar-PV projects sold to date under the sale-leaseback program have been determined by the Company to be capital leases. For leasebacks classified as capital leases, the Company initially records a capital lease asset and capital lease obligation in its consolidated balance sheet equal to the lower of the present value of the Company’s future minimum leaseback payments or the fair value of the solar-PV project. For capital leasebacks, the Company defers any gain or loss, representing the excess or shortfall of cash received from the investor compared to the net book value of the asset in the Company’s consolidated balance sheet at the time of the sale. The Company records the long term portion of any deferred gain or loss in other liabilities and other assets, respectively, and the current portion of any deferred gain or loss in accrued expenses and other current liabilities and prepaid expenses and other current assets, respectively, in its consolidated balance sheet and amortizes the deferred amounts over the lease term in cost of revenues in its consolidated statements of income (loss). During the quarter-ended June 30, 2016, the Company recorded \$124 of deferred loss related to sale-leasebacks which

will be recognized straight-line over the 20 year lease terms. During the quarter-ended December 31, 2015, the Company recorded \$1,421 of deferred loss related to sale-leasebacks which will be recognized straight-line over the 20 year lease terms. During the six months ended June 30, 2016 and June 30, 2015, the Company recorded \$708 and \$1,029 of deferred income, respectively. which will be recognized straight-line over the 20 year lease terms. The Company records the capital leaseback assets in project assets, net in its consolidated balance sheets. The Company records the capital lease liabilities in long-term debt and capital lease liabilities, less current portions and deferred financing fees, net in its consolidated balance sheets. During the quarters ended June 30, 2016 and June 30, 2015, the Company recorded \$4,266 and \$0 respectively, in capital lease assets and corresponding capital lease liabilities, and during the quarter ended

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

December 31, 2015 the Company recorded \$3,299 in capital lease assets and corresponding capital lease liabilities. During the six months ended June 30, 2016 and June 30, 2015, the Company recorded \$5,672 and \$3,511 respectively, in capital lease assets and corresponding capital lease liabilities. The capital lease assets will be amortized straight-line over the 20 year lease terms. Leaseback payments made to the lessor, related to the capital lease liabilities, are allocated between interest expense and a reduction to the sale-leaseback financing obligation. The initial lease terms for the solar-PV projects sold during the three months ended June 30, 2016 are 20 years with semi-annual leaseback payments due to the investor ranging from \$8 to \$389 over the lease term. The initial lease terms for the solar-PV projects sold during the six months ended June 30, 2016 are 20 years with semi-annual leaseback payments due to the investor ranging from \$8 to \$389 over the lease term. The initial lease terms for the solar-PV projects sold during the year ended December 31, 2015 are 20 years with semi-annual leaseback payments due to the investor ranging from \$7 to \$348 over the lease term.

**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 derivatives and the long term portion of sale-leaseback deferred gains.

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



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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

Cost of Revenues

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

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

Income Taxes

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

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

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

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

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, which simplifies the presentation of deferred income taxes. The Company elected to early adopt ASU 2015-17 retrospectively in the fourth quarter of 2015. As a result, it has presented all deferred tax assets and liabilities as noncurrent on its consolidated balance sheet as of June 30, 2016 and December 31, 2015, respectively.

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).

Fair Value Measurements

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

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, interest rate swaps, accounts payable, accrued expenses and short- and long-term borrowings.

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Because of their short maturity, the carrying amounts of cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of June 30, 2016, the fair value of the Company's long-term debt exceeds its carrying value by approximately \$884. Fair value of the Company's debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities, which are level two inputs of the fair value hierarchy, as defined in Note 6.

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 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 June 30, 2016 and 2015, the Company recorded stock-based compensation expense of \$391 and \$453, respectively, in connection with stock-based payment awards. For the six months ended June 30, 2016 and 2015, the Company recorded stock-based compensation expense of \$758 and \$971, 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 June 30, 2016, there was \$3,354 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over

a weighted-average period of 3.0 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

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reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the six months ended June 30, 2016 or during the year ended December 31, 2015.

Share Repurchase Program

In April 2016, the Company's Board of Directors authorized the repurchase of up to \$10,000 of the Company's Class A common stock from time to time on the open market in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. Any repurchased shares will be available for use in connection with its stock plans and for other corporate purposes. The repurchase program will be funded using the Company's working capital and borrowings under its revolving line of credit. The Company accounts for share repurchases using the cost method. Under this method, the cost of the share repurchase is recorded entirely in treasury stock, a contra equity account. During the three months ended June 30, 2016, the Company repurchased 417,698 shares of common stock in the amount of \$1,949, including fees.

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

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

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of approximately \$27,900 variable rate note at a fixed interest rate of 6.99% and expires in December 2024. This swap was designated as a hedge in March 2013. During the second quarter of 2014, this swap was de-designated and re-designated as a hedge as a result of a partial pay down of the associated hedged debt principal.

In July 2011, the Company entered into a five-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covered an initial

notional amount of \$38,571 variable rate note at a fixed interest rate of 1.965% and expired in June 2016. This interest rate swap had 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

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\$16,750 variable rate note at a fixed interest rate of 1.71%. This notional amount increased to \$42,247 on September 30, 2013 and expires in March 2020. These interest rate swaps have been designated as hedges since inception.

In October 2012, the Company also entered into two eight-year forward starting interest rate swap contracts under which the Company agreed to pay an amount equal to 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. These interest rate swaps have been designated as hedges since inception.

In September 2015, the Company entered into a seven-year forward starting interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$20,746 variable rate note at a fixed interest rate of 2.19%, and expires in February 2023. The effective date of the interest rate swap was February 28, 2016. The underlying cash flows hedged have an initial principal balance of \$20,746 with an effective date of March 30, 2016. This interest rate swap has been designated as a hedge since inception.

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

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss) attributable to Ameresco, Inc.	\$ 1,994	\$ 1,991	\$ 3,048	\$ (2,197 )
Basic weighted-average shares outstanding	46,719,142	49,162	46,730,806	45,877
Effect of dilutive securities:				
Stock options	74,228	892,250	—	—
Diluted weighted-average shares outstanding	46,793,370	50,054,412	46,730,806	45,877

For the three months ended June 30, 2016 and 2015 the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares, as the effect would be anti-dilutive, were 3,661,286 and 1,705,470, respectively. For the six months ended June 30, 2016 and 2015 the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares, as the effect would be anti-dilutive, were 4,306,348 and 1,735,470. For the six months ended June 30, 2016 the Company has excluded stock options from the calculation of dilutive shares under the treasury stock method where the sum of the assumed proceeds, including unrecognized compensation and related excess tax benefits, exceeds the difference between the market price and the exercise price.

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.

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 VIE 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

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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.

**Redeemable Non-Controlling Interest**

In September 2015, the Company formed an investment fund with a third party investor which granted the investor ownership interests in the net assets of certain of the Company's renewable energy project subsidiaries. The Company entered into this agreement in order to finance the costs of constructing the project assets which are under long-term customer contracts. The Company has determined that it is the primary beneficiary in the operational partnership for accounting purposes. Accordingly, the Company will consolidate the assets and liabilities and operating results of the entities in its consolidated financial statements. The Company will recognize the investors' share of the net assets of the subsidiary as a redeemable non-controlling interest in its condensed consolidated balance sheets.

The Company has determined that the provisions in the contractual arrangement represent a substantive profit-sharing arrangement. The Company has further determined that the appropriate methodology for attributing income and loss to the redeemable non-controlling interest each period is a balance sheet approach referred to as the hypothetical liquidation at book value ("HLBV") method. Under the HLBV method, the amounts of income and loss attributed to the redeemable non-controlling interest in the consolidated statements of income (loss) reflect changes in the amounts the investor would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreement, assuming the net assets of this funding structure were liquidated at recorded amounts. The investors' non-controlling interest in the results of operations of this funding structure is determined as the difference in the non-controlling interest's claim under the HLBV method at the start and end of each reporting period, after taking into account any capital transactions, such as contributions or distributions, between the Company's subsidiary and the investor. The use of the HLBV methodology to allocate income to the redeemable non-controlling interest holder may create volatility in the Company's consolidated statements of income (loss) as the application of HLBV can drive changes in net income available and loss attributable to the redeemable non-controlling interest from quarter to quarter.

The Company classified the non-controlling interest with redemption features that are not solely within the control of the Company outside of permanent equity on its consolidated balance sheets. The redeemable non-controlling interest will be reported using the greater of its carrying value at each reporting date as determined by the HLBV method or the estimated redemption value in each reporting period.

See Note 9 for additional disclosures.

**Recent Accounting Pronouncements**

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance in this ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. This ASU also supersedes some cost guidance included in ASC 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are

not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in this ASU. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017. Entities would be permitted to adopt the standard as early as the original public entity effective date (i.e., annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date is not permitted. Retrospective application of the amendments in this ASU is required. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption (with some limited relief provided) or a modified

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retrospective approach. Early application is not permitted under GAAP. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40) (“ASU 2014-15”). ASU 2014-15 requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles of current U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company does not believe that this pronouncement will have an impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual reporting periods. The Company adopted this guidance in the first quarter of fiscal 2016. This pronouncement did not change the Company’s previous consolidation conclusions.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-03): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual reporting periods. The Company adopted this guidance in the first quarter of fiscal 2016. As such, deferred financing fees are presented on the Consolidated Balance Sheets as a reduction to long-term debt and capital lease liabilities.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of our pending adoption of the new standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The guidance in this ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. ASU 2016-09 will be effective for us on January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact ASU 2016-09 will have on our consolidated financial statements.

**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, 2015	\$24,759	\$3,375	\$3,162	\$	—\$27,789	\$59,085

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Currency effects	—	—	223	—	(693	) (470	)
Balance, June 30, 2016	\$24,759	\$3,375	\$3,385	\$	—\$27,096	\$58,615	
Accumulated Goodwill Impairment Balance, December 31, 2015	\$—	\$—	\$(1,016)	\$	—\$—	\$(1,016)	
Accumulated Goodwill Impairment Balance, June 30, 2016	\$—	\$—	\$(1,016)	\$	—\$—	\$(1,016)	

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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 six months ended June 30, 2016 or for the year ended December 31, 2015.

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

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

	As of June 30, 2016	As of December 31, 2015
Gross Carrying Amount		
Customer contracts	\$7,753	\$ 7,898
Customer relationships	12,025	12,496
Non-compete agreements	3,265	3,324
Technology	2,735	2,701
Trade names	544	540
	26,322	26,959
Accumulated Amortization		
Customer contracts	7,634	7,683
Customer relationships	7,357	6,621
Non-compete agreements	3,160	3,149
Technology	2,381	2,241
Trade names	508	495
	21,040	20,189
Intangible assets, net	\$5,282	\$ 6,770

Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). Amortization expense for the three months ended June 30, 2016 and 2015 related to customer contracts was \$48 and \$231, respectively. Amortization expense for the six months ended June 30, 2016 and 2015 related to customer contracts was \$94 and \$459, respectively.

Amortization expense for the three months ended June 30, 2016 and 2015 related to all other acquired intangible assets was \$559 and \$784, respectively. Amortization expense for the six months ended June 30, 2016 and 2015 related to all other acquired intangible assets was \$1,117 and \$1,565, respectively.

**4. INCOME TAXES**

The provision (benefit) for income taxes was \$766 and \$1,746 for the three months ended June 30, 2016 and 2015, respectively. The provision (benefit) for income taxes was \$1,007 and \$(1,156) for the six months ended June 30, 2016 and 2015, respectively. The estimated 2016 effective tax rate was 26.7% for the three months ended June 30, 2016 compared to a 46.7% estimated annual effective tax rate for the three months ended June 30, 2015. The estimated 2016 effective tax rate was 26.4% for the six months ended June 30, 2016 compared to a 34.5% estimated annual effective tax rate for the six months ended June 30, 2015.

The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2016 were the effects of the tax deduction under Internal Revenue Code Section 179D and investment tax credits and production

tax credits to which the Company is entitled from owned plants. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2015 were the effects of the valuation allowance required for the expected Canada losses as well as the investment tax credits and production tax credits to which the Company is entitled to from owned plants.

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The investment tax credits to which the Company is entitled to fluctuate from year to year based on the cost of the renewable energy plants the Company places or expects to place in service in that year. In addition, the tax deduction under Internal Revenue Code Section 179D expired as of December 31, 2014 and was retroactively reinstated in December of 2015. The current expiration date for the 179D deduction is December 31, 2016.

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

	Gross Unrecognized Tax Benefits
Balance, December 31, 2015	\$ 2,200
Additions for prior year tax positions	—
Settlements with tax authorities	(84 )
Reductions of prior year tax positions	—
Balance, June 30, 2016	\$ 2,116

At June 30, 2016 and December 31, 2015, the Company had approximately \$2,116 and \$2,200, respectively, of total gross unrecognized tax benefits. At June 30, 2016 and December 31, 2015, the Company had approximately \$700 and \$800, respectively, of total gross unrecognized tax benefits (net of the federal benefit on state amounts) representing the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

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

**Commitments as a Result of Acquisitions**

Related to the Company's acquisition of Energyexcel LLP (“EEX”) in the second quarter of 2014, the former owners of EEX, who are now employees of the Company, may be entitled to receive up to 4,500 British pounds sterling (\$6,025 converted as of June 30, 2016) in additional consideration, accounted for as compensation for post-combination services, if the acquired business meets certain financial performance milestones through December 31, 2018. No amounts were accrued as of June 30, 2016 and December 31, 2015, respectively.



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

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

(in thousands, except share and per share amounts)

advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Three levels of inputs that may be used to measure fair value are as follows:

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

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

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

The following table presents the input level used to determine the fair values of the Company's financial instruments measured at fair value on a recurring basis:

	Fair Value as of	
	June	December
	30,	31,
Level	2016	2015

**Liabilities:**

Interest rate swap instruments 2	\$8,509	\$ 4,681
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The fair value of the Company's interest rate swaps was determined using a cash flow analysis on the expected cash flow of the contract in combination with observable market-based inputs, including interest rate curves and implied volatilities. As part of this valuation, the Company considered the credit ratings of the counterparties to the interest rate swaps to determine if a credit risk adjustment was required.

The fair value of 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 June 30, 2016, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements which are considered to be level two inputs. There were no transfers in or out of level two for the six months ended June 30, 2016. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt, excluding capital lease liabilities, are as follows:

	As of June 30, 2016	As of December 31, 2015
	Fair Value	Carrying Value

Long-term debt	\$108,300	\$107,416	\$108,323	\$107,148
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The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. There were no assets recorded at fair value on a non-recurring basis at June 30, 2016.

**7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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

	Derivatives as of		December 31, 2015	
	June 30, 2016	Fair Value	December 31, 2015	Fair Value
	Balance Sheet Location		Balance Sheet Location	
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other liabilities	\$8,509	Other liabilities	\$4,681



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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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 Recognized in Net Income	Amount of Gain Recognized in Net Income			
		Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	\$(83)	\$(101)	\$(153)	\$(184)

Derivatives Designated as Hedging

Instruments:

Interest rate swap contracts

Other expenses, net

\$(83) \$(101) \$(153) \$(184)

The following table summarizes the pre-tax amount of unrealized gain or loss recognized in accumulated other comprehensive loss, net ("AOCI") in the Company's consolidated balance sheets:

	Six Months Ended June 30, 2016
Derivatives Designated as Hedging Instruments:	
Accumulated loss in AOCI at the beginning of the period	\$(2,548)
Unrealized loss recognized in AOCI	(1,996)
Loss reclassified from AOCI to other expenses, net	(629)
Accumulated loss in AOCI at the end of the period	\$(5,173)

**8. INVESTMENT FUND**

During the third quarter of 2015, the Company formed an investment fund for the purpose of funding the purchase of a solar energy system. The Company consolidates the investment fund, and all inter-company balances and transactions between the Company and the investment fund are eliminated in its consolidated financial statements. The Company determined that the investment fund meets the definition of a VIE. The Company uses a qualitative approach in assessing the consolidation requirement for VIEs that focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company has considered the provisions within the contractual arrangements that grant it power to manage and make decisions that affect the operation of this VIE, including determining the solar energy systems and associated long term customer contracts to be sold or contributed to the VIE, and installation, operation and maintenance of the solar energy systems. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights. As such, the Company has determined it is the primary beneficiary of the VIE for all periods presented. The Company evaluates its relationships with VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

Under the related agreements, cash distributions of income and other receipts by the fund, net of agreed-upon expenses and estimated expenses, tax benefits and detriments of income and loss, and tax benefits of tax credits, are assigned to the fund investor and Company's subsidiary as specified in contractual arrangements. Certain of these arrangements have call and put options to acquire the investor's equity interest as specified in the contractual agreement. See Note 9 for additional information on the call and put options.

At June 30, 2016, the Company included \$1,554 in restricted cash and \$32,932 of project assets, net related to the investment fund in the Company's consolidated balance sheet. At December 31, 2015, the Company included \$5,419

in restricted cash and \$32,657 of project assets, net related to the investment fund in the Company's consolidated balance sheet.

#### 9. NON-CONTROLLING INTERESTS

##### Redeemable Non-controlling Interest

The Company's wholly owned subsidiary with a membership interest in the investment fund has the right, beginning on the fifth anniversary of the final funding of the variable rate construction and term loans due 2023 and extending for six months, to elect to require the non-controlling interest holder to sell all of its membership units to the Company's wholly owned subsidiary

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

(the “Call Option”). The Company’s investment fund also includes a right, beginning on the sixth anniversary of the final funding and extending for one year, for the non-controlling interest holder to elect to require the Company’s wholly owned subsidiary to purchase all of its membership interests in the fund (the “Put Option”).

Because the Put Option represents a redemption feature that is not solely within the control of the Company, the non-controlling interest in these funds is presented outside of permanent equity. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date (which is impacted by attribution under the HLBV method) or their estimated redemption value in each reporting period.

The purchase price for the fund investor’s membership interest under the Call Option is equal to the fair market value as of the exercise date.

10. 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 solutions 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 landfill gas, 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. During the three months ended June 30, 2016, the Company also reserved for certain assets in its Canada segment totaling \$1,934 due to collectability concerns as a result of its previously disclosed restructuring efforts.

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

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	All Other	Total Consolidated
Three Months Ended June 30, 2016						
Revenues	\$70,583	\$43,099	\$13,198	\$ 19,060	\$16,688	\$ 162,628
Interest income	—	3	—	10	—	13
Interest expense	—	289	403	1,068	—	1,760
Depreciation and amortization of intangible assets	137	704	261	3,751	675	5,528
Unallocated corporate activity	—	—	—	—	—	(6,839 )
Income (loss) before taxes, excluding unallocated corporate activity	4,623	4,565	(1,844 )	2,290	71	9,705
Three Months Ended June 30, 2015						
Revenues	71,594	30,437	13,837	16,319	20,302	152,489
Interest income	—	—	2	9	—	11
Interest expense	—	—	282	976	—	1,258
Depreciation and amortization of intangible assets	204	302	282	3,414	1,017	5,219
Unallocated corporate activity	—	—	—	—	—	(6,897 )
Income (loss) before taxes, excluding unallocated corporate activity	6,158	5,042	(570 )	2,112	(2,108 )	10,634
Six Months Ended June 30, 2016						
Revenues	112,204	81,768	28,005	39,753	34,674	296,404
Interest income	—	5	—	19	—	24
Interest expense	—	388	750	2,096	—	3,234
Depreciation and amortization of intangible assets	274	1,227	500	7,600	1,348	10,949
Unallocated corporate activity	—	—	—	—	—	(14,566 )
Income (loss) before taxes, excluding unallocated corporate activity	4,814	10,965	(1,303 )	4,611	(710 )	18,377
Six Months Ended June 30, 2015						
Revenues	118,028	54,580	24,732	29,922	40,660	267,922
Interest income	—	—	3	159	—	162
Interest expense	—	—	611	1,924	—	2,535
Depreciation and amortization of intangible assets	409	608	525	6,880	2,024	10,446
Unallocated corporate activity	—	—	—	—	—	(13,405 )
Income (loss) before taxes, excluding unallocated corporate activity	\$8,075	\$8,300	\$(5,578 )	\$ 2,349	\$(3,094 )	\$ 10,052

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

## 11. 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. The loans were fully converted to a term loan during the year ended December 31, 2014. At June 30, 2016, \$37,116 was outstanding under the term loan. The variable rate for this loan at June 30, 2016 was 3.64%.

In September 2015, the Company entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar-PV projects currently under construction. The credit and guaranty agreement provides for a \$20,746 construction-to-term loan credit facility and bears interest at a variable rate. The term loan matures on March 30, 2023. On March 30, 2016, the construction loan was converted to a term loan. At December 31, 2015, \$17,663 was outstanding under the construction loan. At June 30, 2016, \$20,572 was outstanding under the term loan. The variable rate for this loan at June 30, 2016 was 3.13%.

## Senior Secured Credit Facility - Revolver and Term Loan

On June 30, 2015, the Company entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extended the Company's existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016. The revolving credit facility matures on June 30, 2020 and the term loan facility matures on June 30, 2018, when all amounts will be due and payable in full. The Company expects to use the new credit facility for general corporate purposes of the Company and its subsidiaries, including permitted acquisitions, refinancing of existing indebtedness and working capital.

The credit facility consists of a \$60,000 revolving credit facility and a \$17,143 term loan. The amount of the term loan represents the amount outstanding under the Company's existing term loan at closing. The revolving credit facility may be increased by up to an additional \$25,000 at the Company's option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20,000 of the revolving credit facility may be borrowed in Canadian dollars, Euros and Pounds Sterling. The Company is the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of the Company's direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of the Company's and such subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries (as defined in the agreement). At June 30, 2016, there were \$14,200 amounts outstanding under the revolving credit facility and \$11,429 outstanding under the term loan. At December 31, 2015, there was \$11,300 outstanding under the revolving credit facility and \$14,285 outstanding under the term loan.

The interest rate for borrowings under the credit facility is based on, at the Company's option, either (1) a base rate equal to a margin of 0.50% or 0.25%, depending on the Company's ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50%, (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on the Company's ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility. At June 30, 2016, the interest rate for borrowings under the revolving credit facility was 3.75% and interest rate for borrowings under the term loan was 2.38%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1,429, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at the Company's option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

The credit facility limits the Company's and its subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; merge, liquidate or dispose of assets; make acquisitions or other investments; enter into hedging agreements; pay dividends and make other distributions and engage in transactions



with affiliates, except in the ordinary course of business on an arms' length basis.

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AMERESCO, INC.

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

(in thousands, except share and per share amounts)

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

- a ratio of total funded debt to EBITDA of less than 2.0 to 1.0; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

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

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

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

At June 30, 2016, the Company was in compliance with all financial and operational covenants.

In July 2016, the Company entered into an amendment to the third amended and restated bank credit facility. Under this amendment, the requirement of the total funded debt to EBITDA ratio was amended such that the Loan Parties shall not permit the Core Leverage Ratio (i) as of the end of each fiscal quarter ending on or before June 30, 2016, to exceed 2.00 to 1.00, (ii) as of the end of each fiscal quarter ending September 30, 2016, December 31, 2016, March 31, 2017 and June 30, 2017, to exceed 2.75 to 1.00, and (iii) as of the end of each fiscal quarter ending September 30, 2017 and thereafter, to exceed 2.00 to 1.00.

## 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, 2015 included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed on March 4, 2016 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 our expectations as to the future growth of our business and associated expenses; our expectations as to revenue generation; the future availability of borrowings under our revolving credit facility; the expected future growth of the market for energy efficiency and renewable energy solutions; our backlog, awarded projects and recurring revenue and the timing of such matters; our expectations as to acquisition activity; the impact of any restructuring; the uses of future earnings; our intention to repurchase shares of our Class A common stock; the expected energy and cost savings of our projects; and the expected energy production capacity of our renewable energy plants; and other characterizations of future events or circumstances are forward-looking statements. These statements are often, but not exclusively, identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "target," "project," "pr  
"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, 2015 and as updated in our Quarterly Report for the quarter ended March 31, 2016. 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

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extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

### Overview

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

In September 2015, we entered into an agreement with a third party investor which granted the investor ownership interests in the net assets of certain of our renewable energy project subsidiaries. We entered into this agreement in order to finance the costs of constructing certain project assets which are under long-term customer contracts. We have determined that we are the primary beneficiary in the operational partnership for accounting purposes.

Accordingly, we will consolidate the assets and liabilities and operating results of the entities in our consolidated financial statements. We recognize the investor's share of the net assets of the investor's funds as redeemable non-controlling interests in our consolidated balance sheets. These income or loss allocations, which will be reflected on our consolidated statements of income (loss), may create significant volatility in our reported results of operations, including potentially changing net income available (loss attributable) to common stockholders from income to loss, or vice versa, from quarter to quarter.

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

Our acquisition of the energy consultancy and energy project management business of Energyexcel LLP in the third quarter of 2014 added to our local presence in the United Kingdom ("UK") and to our commercial and industrial customer base.

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 (now known as Ameresco Limited) and ESP Response Limited in the second quarter of 2013 added a local presence in the UK, 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 revenues and operating income in the third and fourth quarter are typically higher, and our revenues and operating income in the first quarter are typically lower, than in other quarters of the year. As a result of such fluctuations, we may occasionally experience declines in revenue or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

Our annual and quarterly financial results are also subject to significant fluctuations as a result of other factors, many of which are outside of our control. See "Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter" in Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2015 ("Annual Report").

### Backlog and Awarded Projects

Total construction backlog represents projects that are active within our ESPC sales cycle. Our sales cycle begins with the initial contact with the customer and ends, when successful, with a signed contract, also referred to as fully-contracted backlog. Our sales cycle recently has been averaging 18 to 42 months. Awarded backlog is created

when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated

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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 18 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.

As of June 30, 2016, we had backlog of approximately \$435.1 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 \$1,116.0 million. As of June 30, 2015, we had fully-contracted backlog of approximately \$398.3 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 \$944.5 million.

We define our 12-month backlog as the estimated amount of revenues that we expect to recognize in the next twelve months from our fully-contracted backlog. As of June 30, 2016 and 2015, our 12-month backlog was \$283.7 million and \$344.0 million, respectively.

Assets in development, which represents the potential design/build project value of small-scale renewable energy plants that have been awarded or for which we have secured development rights, was \$157.0 million and \$152.4 million as of June 30, 2016 and 2015, respectively.

#### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("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 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. 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, 2015.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance in this ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. This ASU also supersedes some cost guidance included in ASC 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in this ASU. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017. Entities would be permitted to adopt the standard as early as the original public entity effective date (i.e., annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date would not be permitted. Retrospective application of the amendments in this ASU is required. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption (with some limited relief provided) or a modified retrospective approach. We are currently assessing the impact of this ASU on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles of current U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. We do not believe that this pronouncement will have an impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual reporting periods. We adopted this guidance in the first quarter of fiscal 2016. This pronouncement did not change our previous consolidation conclusions.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-03): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual reporting periods. We adopted this accounting standard effective in the first quarter of fiscal 2016. As such, prior periods in our financial statements were retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The guidance in this ASU involves several aspects of the



accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. ASU 2016-09 will be effective for

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us on January 1, 2017, with early adoption permitted. We are currently evaluating the impact ASU 2016-09 will have on our consolidated financial statements.

## Results of Operations

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

	Three Months Ended June 30,		2015		
	2016	% of	Dollar	% of	
	Amount	Revenues	Amount	Revenues	
Revenues	\$162,628	100.0 %	\$152,489	100.0 %	
Cost of revenues	130,772	80.4 %	121,593	79.7 %	
Gross profit	31,856	19.6 %	30,896	20.3 %	
Selling, general and administrative expenses	27,140	16.7 %	25,812	16.9 %	
Operating income	4,716	2.9 %	5,084	3.3 %	
Other expenses, net	1,850	1.1 %	1,347	0.9 %	
Income before provision from income taxes	2,866	1.8 %	3,737	2.5 %	
Income tax provision	766	0.5 %	1,746	1.1 %	
Net income	2,100	1.3 %	1,991	1.3 %	
Net income attributable to redeemable non-controlling interest	(106)	(0.1)%	—	—	%
Net income attributable to Ameresco, Inc.	\$1,994	1.2 %	\$1,991	1.3 %	

	Six Months Ended June 30,		2015		
	2016	% of	Dollar	% of	
	Amount	Revenues	Amount	Revenues	
Revenues	\$296,404	100.0 %	\$267,922	100.0 %	
Cost of revenues	236,872	79.9 %	217,383	81.1 %	
Gross profit	59,532	20.1 %	50,539	18.9 %	
Selling, general and administrative expenses	53,028	17.9 %	49,883	18.6 %	
Operating income	6,504	2.2 %	656	0.2 %	
Other expenses, net	2,693	0.9 %	4,009	1.5 %	
Income (loss) before provision (benefit) from income taxes	3,811	1.3 %	(3,353)	(1.3)%	
Income tax provision (benefit)	1,007	0.3 %	(1,156)	(0.4)%	
Net income (loss)	\$2,804	0.9 %	\$(2,197)	(0.8)%	
Net loss attributable to redeemable non-controlling interest	244	0.1 %	\$—	—	%
Net income (loss) attributable to Ameresco, Inc.	\$3,048	1.0 %	\$(2,197)	(0.8)%	

## Revenues

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

	Three Months Ended June 30,		Dollar Change	Percentage Change
	2016	2015		
Revenues	\$162,628	\$152,489	\$10,139	6.6 %

	Six Months Ended June 30,		Dollar Change	Percentage Change
	2016	2015		
Revenues	\$296,404	\$267,922	\$28,482	10.6 %



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Revenues increased \$10.1 million, or 6.6%, for the three months ended June 30, 2016 compared to the same period of 2015 due to a \$12.7 million increase in revenues from our U.S. Federal segment and a \$2.7 million increase in revenues from our Small-Scale Infrastructure segment, partially offset by a \$1.0 million decrease in revenues from our U.S. Regions segment and a \$3.6 million decrease in revenues from All Other. Revenues increased \$28.5 million, or 10.6%, for the six months ended June 30, 2016 compared to the same period of 2015 due to a \$27.2 million increase in revenues from our U.S. Federal segment and a \$3.3 million increase in revenues from our Canada segment, partially offset by a \$5.8 million decrease in revenues from our U.S. Regions segment and a \$6.0 million decrease in revenues from All Other.

**Cost of Revenues and Gross Profit**

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

	Three Months Ended June 30,		Dollar Change	Percentage Change	
	2016	2015			
Cost of revenues	\$130,772	\$121,593	\$9,179	7.5	%
Gross margin %	19.6	% 20.3			%

	Six Months Ended June 30,		Dollar Change	Percentage Change	
	2016	2015			
Cost of revenues	\$236,872	\$217,383	\$19,489	9.0	%
Gross margin %	20.1	% 18.9			%

Cost of revenues increased \$9.2 million, or 7.5%, for the three months ended June 30, 2016 and increased \$19.5 million, or 9.0%, for the six months ended June 30, 2016 compared to the same periods of 2015, respectively, primarily due to the increase in revenues described above. Gross margin percentage decreased to 19.6% from 20.3% for the three months ended June 30, 2016 compared to the same period of 2015. This decrease was primarily attributable to cost budget revisions in our U.S. Federal segment during the three months ended June 30, 2016. Gross margin percentage increased to 20.1% from 18.9% for the six months ended June 30, 2016 compared to the same period for 2015. This increase was primarily due to the increase in revenues described above as well as cost budget revisions on a significant project in our Canada segment during the first quarter of 2015, which resulted in a reduction in project to date revenues recognized and a reserve for potential future losses on the project recorded during the six months ended June 30, 2015.

As a result of certain acquisitions, we have intangible assets related to customer contracts; these are typically 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 June 30, 2016 and 2015, we recorded amortization expense of \$0.1 million and \$0.2 million, respectively, related to customer contracts. For the six months ended June 30, 2016 and 2015, we recorded amortization expense of \$0.1 million and \$0.5 million, respectively, related to customer contracts.

**Selling, General and Administrative Expenses**

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

	Three Months Ended June 30,		Dollar Change	Percentage Change	
	2016	2015			
Selling, general and administrative expenses	\$27,140	\$25,812	\$1,328	5.1	%

	Six Months Ended June 30,		Dollar	Percentage	

	2016	2015	Change	Change
Selling, general and administrative expenses	\$53,028	\$49,883	\$3,145	6.3 %

Selling, general and administrative expenses increased \$1.3 million, or 5.1%, for the three months ended June 30, 2016 primarily due to \$2.1 million in restructuring charges which included \$1.9 million in bad debt expense in our Canada segment related to our restructuring efforts. Selling, general and administrative expenses increased \$3.1 million, or 6.3%, for the six months ended June 30, 2016 primarily due to \$2.4 million in restructuring charges, which included the \$1.9 million in bad debt expense in our Canada segment described above and a \$0.7 million write-down of accounts receivable, costs and estimated

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earnings in excess of billings and prepaid expenses and other current assets during the first quarter of 2016 related to a customer that declared bankruptcy.

Amortization expense of intangible assets related to customer relationships, non-compete agreements, technology and trade names is included in selling, general and administrative expenses in the consolidated statements of income (loss). For the three months ended June 30, 2016 and 2015, we recorded amortization expense, related to these intangible assets, of \$0.6 million and \$0.8 million, respectively. For the six months ended June 30, 2016 and 2015, we recorded amortization expense, related to these intangible assets, of \$1.1 million and \$1.6 million, respectively.

Other Expenses, Net

Other expenses, net includes gains and losses from derivatives and foreign currency transactions, interest income and expenses and amortization of deferred financing costs, net. Other expenses, net, increased \$0.5 million for the three months ended June 30, 2016 compared to the same period of 2015 primarily due to an increase in interest expense. Other expenses, net, decreased \$1.3 million for the six months ended June 30, 2016 compared to the same period of 2015 primarily due to favorable foreign currency exchange rate fluctuations, partially offset by a \$0.5 million increase in interest expense.

Income (Loss) Before Taxes

Income before taxes decreased \$0.9 million, or 23.3%, to \$2.9 million for the three months ended June 30, 2016 from \$3.7 million for the same period of 2015 due to the reasons described above. Income before taxes increased \$7.2 million or 213.7%, to \$3.8 million for the six months ended June 30, 2016 from a loss of \$3.4 million for the same period of 2015 due to the reasons described above.

Provision (Benefit) from Income Taxes

The provision for income taxes was \$0.8 million for the three months ended June 30, 2016, compared to \$1.7 million for the three months ended June 30, 2015. The provision for income taxes was \$1.0 million for the six months ended June 30, 2016, compared to a benefit of \$1.2 million for the six months ended June 30, 2015. The estimated annual effective tax rate applied for the three months ended June 30, 2016 was 26.7% compared to 46.7% for the three months ended June 30, 2015. The estimated annual effective tax rate applied for the six months ended June 30, 2016 was 26.4% compared to 34.5% for the same period of 2015. The decrease in the rate compared to the same periods in the prior year was due primarily to the effects of the tax deduction under Internal Revenue Code Section 179D which had expired as of December 31, 2014 and was not available as of June 30, 2015. It was retroactively reinstated in December of 2015, however, and was available for the six months ended June 30, 2016. The current expiration date for the 179D deduction is December 31, 2016.

The principal reasons for the difference between the statutory rate and the estimated annual effective rate for 2016 relate to the effects of the tax deduction under Internal Revenue Code Section 179D and investment tax credits and production tax credits to which we are entitled from plants we own. The principal reason for the difference between the statutory rate and the estimated annual effective rate for 2015 were the effects of the valuation allowance required for the expected Canada losses as well as the investment tax credits and production tax credits to which we are entitled from plants we own.

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

Net Income (Loss) and Earnings (Loss) Per Share

Net income increased \$0.1 million, or 5.5%, to \$2.1 million for the three months ended June 30, 2016 from \$2.0 million for the same period of 2015. Net income increased \$5.0 million, or 227.6%, to \$2.8 million for the six months ended June 30, 2016 from a loss of \$2.2 million for the same period of 2015.

Basic and diluted earnings per share for the three months ended June 30, 2016 and 2015 were \$0.04. Basic and diluted earnings per share for the six months ended June 30, 2016 were \$0.07, an increase of \$0.12, or 240.0%, compared to the same period of 2015.

Business Segment Analysis (in thousands)

We report results under ASC 280, Segment Reporting. 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 solutions and services, which include the

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construction of small-scale plants that we own or develop for customers that produce electricity, gas, heat or cooling from renewable sources of energy; and O&M services. Our Small-Scale Infrastructure segment sells electricity, processed LFG, heat or cooling, produced from renewable sources of energy and generated by small-scale plants that we own. Our Small-Scale Infrastructure segment also now includes certain small-scale plants developed for customers previously included in our U.S. Regions segment. Previously reported amounts have been restated for comparative purposes. The “All Other” category offers enterprise energy management services, consulting services and integrated-PV. These segments do not include results of other activities, such as corporate operating expenses not specifically allocated to the segments.

## U.S. Regions

	Three Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$70,583	\$71,594	\$(1,011)	(1.4)%
Income before taxes	\$4,623	\$6,158	\$(1,535)	(24.9)%

	Six Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$112,204	\$118,028	\$(5,824)	(4.9)%
Income before taxes	\$4,814	\$8,075	\$(3,261)	(40.4)%

Revenues for our U.S. Regions segment decreased \$1.0 million, or 1.4%, to \$70.6 million for the three months ended June 30, 2016 and decreased \$5.8 million, or 4.9%, to \$112.2 million for the six months ended June 30, 2016, compared to the same periods of 2015, respectively, primarily due to a decrease in the number of active projects. Income before taxes for our U.S. Regions segment decreased \$1.5 million, or 24.9%, to \$4.6 million for the three months ended June 30, 2016 and decreased \$3.3 million, or 40.4%, to \$4.8 million for the six months ended June 30, 2016, compared to the same periods of 2015, respectively, primarily due to the decrease in revenues described above, which resulted in decreased operating leverage, and an increase in project development costs.

## U.S. Federal

	Three Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$43,099	\$30,437	\$12,662	41.6%
Income before taxes	\$4,565	\$5,042	\$(477)	(9.5)%

	Six Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$81,768	\$54,580	\$27,188	49.8%
Income before taxes	\$10,965	\$8,300	\$2,665	32.1%

Revenues for our U.S. Federal segment increased \$12.7 million, or 41.6%, to \$43.1 million for the three months ended June 30, 2016 and increased \$27.2 million, or 49.8%, to \$81.8 million for the six months ended June 30, 2016, compared to the same periods of 2015, respectively, primarily due to an increase in project size and the timing of revenue recognized as a result of the phase of active projects.

Income before taxes for our U.S. Federal segment decreased \$0.5 million, or 9.5%, to \$4.6 million for the three months ended June 30, 2016, compared to the same period of 2015 primarily due to a cost budget revision on a large project. Income before taxes for our U.S. Federal segment increased \$2.7 million, or 32.1%, to \$11.0 million for the six months ended June 30, 2016, compared to the same period of 2015 primarily due to the increase in revenue described above, partially offset by the budget revision described above.





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## Canada

	Three Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$13,198	\$13,837	\$(639 )	(4.6 )%
Income (loss) before taxes	\$(1,844 )	\$(570 )	\$(1,274 )	223.5 %

	Six Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$28,005	\$24,732	\$3,273	13.2 %
Loss before taxes	\$(1,303 )	\$(5,578 )	\$4,275	(76.6 )%

Revenues for our Canada segment decreased \$0.6 million, or 4.6%, to \$13.2 million for the three months ended June 30, 2016 compared to the same period of 2015 primarily due to the phase of active projects. Revenues for our Canada segment increased \$3.3 million, or 13.2%, to \$28.0 million for the six months ended June 30, 2016, compared to the same periods of 2015, primarily due to cost budget revisions, during the first quarter of 2015, on a significant project which resulted in a reduction in project to date revenues recognized in 2015.

Loss before taxes for our Canada segment increased \$1.3 million to \$1.8 million for the three months ended June 30, 2016 compared to the same period of 2015 primarily due to \$1.9 million of bad debt expense related to our previously disclosed restructuring efforts in Canada. Loss before taxes for our Canada segment decreased \$4.3 million, or 76.6%, to \$1.3 million for the six months ended June 30, 2016, compared to the same periods of 2015 primarily due to a reserve in 2015 for potential future losses on the significant project described above, partially offset by the bad debt expense recorded during the three months ended June 30, 2016 described above.

## Small-Scale Infrastructure

	Three Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$19,060	\$16,319	\$2,741	16.8 %
Income before taxes	\$2,290	\$2,112	\$178	8.4 %

	Six Months Ended June 30,		Dollar	Percentage
	2016	2015	Change	Change
Revenues	\$39,753	\$29,922	\$9,831	32.9 %
Income before taxes	\$4,611	\$2,349	\$2,262	96.3 %

Revenues for our Small-Scale Infrastructure segment increased \$2.7 million, or 16.8%, to \$19.1 million for the three months ended June 30, 2016 and increased \$9.8 million, or 32.9%, to \$39.8 million for the six months ended June 30, 2016, compared to the same periods of 2015, primarily due to the active development of a small-scale plant we are constructing for a customer during the six months ended June 30, 2016, as compared to the same period of 2015 where no similar projects were in development.

Income before taxes for our Small-Scale Infrastructure segment increased \$0.2 million, or 8.4%, to \$2.3 million for the three months ended June 30, 2016 compared to the same period of 2015 primarily due to the increase in revenues described above offset by revisions to our property tax estimates resulting in a cumulative decrease in accrued costs in 2015. Income before taxes for our Small-Scale Infrastructure segment increased \$2.3 million, or 96.3%, to \$4.6 million for the six months ended June 30, 2016, primarily due to the increase in revenues described above.



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## All Other &amp; Unallocated Corporate Activity

	Three Months Ended		Dollar	Percentage
	June 30,			
	2016	2015	Change	Change
Revenues	\$16,688	\$20,302	\$(3,614)	(17.8)%
Income (loss) before taxes	\$71	\$(2,108)	\$2,179	(103.4)%
Unallocated corporate activity	\$(6,839)	\$(6,897)	\$58	(0.8)%

	Six Months Ended		Dollar	Percentage
	June 30,			
	2016	2015	Change	Change
Revenues	\$34,674	\$40,660	\$(5,986)	(14.7)%
Loss before taxes	\$(710)	\$(3,094)	\$2,384	(77.1)%
Unallocated corporate activity	\$(14,566)	\$(13,405)	\$(1,161)	8.7%

Revenues not allocated to segments and presented as All Other decreased \$3.6 million, or 17.8%, to \$16.7 million for the three months ended June 30, 2016 and decreased \$6.0 million, or 14.7%, to \$34.7 million for the six months ended June 30, 2016, compared to the same periods of 2015 primarily due to our anticipated decrease in integrated-PV sales as a result of a weakening of sales to customers for oilfield microgrid applications.

Income (loss) before taxes not allocated to segments and presented as all other increased \$2.2 million to income of \$0.1 million for the three months ended June 30, 2016 and increased \$2.4 million, or 77.1%, to a loss of \$0.7 million for the six months ended June 30, 2016, compared to the same periods of 2015 primarily due to the positive impact of our 2015 restructuring efforts including cost savings realized in our software group.

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

## Liquidity and Capital Resources

Sources of liquidity. Since inception, we have funded operations primarily through cash flow from operations, advances from Federal ESPC projects and various forms of debt. We believe that 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 2016 and thereafter.

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

Our service offering also includes the development, construction and operation of small-scale renewable energy plants. Small-scale renewable energy projects, or 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 relating to construction financing during the period of construction for the six months ended June 30, 2016 and 2015 was \$0.3 million and \$0.2 million, respectively.

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Cash flows from operating activities. Operating activities used \$39.7 million of net cash during the six months ended June 30, 2016. During that period, we had net income of \$2.8 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes, unrealized foreign exchange (gain) loss and other non-cash items totaling \$14.0 million. Decreases in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net, other assets and an increase in income taxes payable provided \$19.5 million. These were offset by increases in restricted cash, accounts receivable, including retainage, inventory, prepaid expenses and other current assets, project development costs and decreases in accounts payable and accrued expenses and other current liabilities and other liabilities, which used \$25.8 million in cash. An increase in Federal ESPC receivables used an additional \$50.2 million. As described above, Federal ESPC operating cash flows only reflect the ESPC expenditure outflows and do not reflect any inflows from the corresponding contract revenues, which are recorded as cash inflows from financing activities due to the timing of the receipt of cash related to the assignment of the ESPC receivables to the third-party investors.

Operating activities used \$37.0 million of net cash during the six months ended June 30, 2015. During that period, we had a net loss of \$2.2 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes, unrealized foreign exchange (gain) loss and other non-cash items totaling \$11.6 million. Decreases in accounts receivable, including retainage, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, net provided \$7.0 million in cash. These were offset by increases in restricted cash, inventory, prepaid expenses and other current assets, project development costs and other assets and decreases in accounts payable and accrued expenses, other liabilities and income taxes payable, which used \$23.7 million. An increase in Federal ESPC receivables used an additional \$29.6 million.

Cash flows from investing activities. Cash flows from investing activities during the six months ended June 30, 2016 used \$23.0 million. We invested \$20.8 million on purchases of project assets during the six months ended June 30, 2016. We plan to invest an additional \$50 million to \$65 million on capital expenditures, principally for renewable energy plants, for the remainder of 2016. In addition, we invested \$2.2 million in purchases of other property and equipment.

Cash flows from investing activities during the six months ended June 30, 2015 used \$13.4 million. Development of our renewable energy plants used \$13.6 million. In addition, we invested \$0.6 million in purchases of other property and equipment and received \$0.9 million from the sale of assets.

Cash flows from financing activities. Cash flows from financing activities during the six months ended June 30, 2016 provided \$57.2 million. This was primarily due to proceeds from redeemable non-controlling interest of \$6.5 million, \$3.4 million of restricted cash released into operating cash, \$11.0 million received under our sale-leaseback financing arrangement, proceeds from project financings of \$3.0 million, net draws on our revolving credit facility of \$2.9 million and proceeds from exercises of options of \$0.5 million. This was partially offset by payments on long-term debt of \$6.1 million, repurchase of stock of \$1.9 million, including fees, and payments of financing fees of \$0.7 million. Proceeds from Federal ESPC projects provided \$38.8 million.

Cash flows from financing activities during the six months ended June 30, 2015 provided \$45.1 million. This was primarily due to \$7.6 million received under our sale-leaseback financing arrangement, net draws on our revolving credit facility of \$3.5 million and proceeds from exercises of options of \$0.6 million. These was partially offset by payments on long-term debt of \$6.1 million and payments of financing fees of \$1.2 million. Proceeds from Federal ESPC projects provided \$40.9 million.

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

On June 30, 2015, we entered into a third amended and restated bank credit facility with two banks. The new credit facility replaces and extends our existing credit facility, which was scheduled to expire in accordance with its terms on June 30, 2016. The revolving credit facility matures on June 30, 2020 and the term loan facility matures on June 30, 2018, when all amounts will be due and payable in full. We expect to use the new credit facility for our general corporate purposes, including permitted acquisitions, refinancing of existing indebtedness and working capital.

The credit facility consists of a \$60.0 million revolving credit facility and a \$17.1 million term loan. The amount of the term loan represents the amount outstanding under our existing term loan at closing. The revolving credit facility

may be increased by up to an additional \$25.0 million at our option if lenders are willing to provide such increased commitments, subject to certain conditions. Up to \$20.0 million of the revolving credit facility may be borrowed in Canadian dollars, Euros and Pounds Sterling. We are the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by certain of our direct and indirect wholly owned domestic subsidiaries and are secured by a pledge of all of our and such of our subsidiary guarantors' assets, other than the equity interests of certain subsidiaries and assets held in non-core subsidiaries

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(as defined in the agreement). At June 30, 2016, there was \$14.2 million borrowings outstanding and \$36.1 million available under the revolving credit facility and \$11.4 million outstanding under the term loan.

The interest rate for borrowings under the credit facility is based on, at our option, either (1) a base rate equal to a margin of 0.50% or 0.25%, depending on our ratio of Total Funded Debt to EBITDA (each as defined in the agreement), over the highest of (a) the federal funds effective rate, plus 0.50%, (b) Bank of America's prime rate and (c) a rate based on the London interbank deposit rate ("LIBOR") plus 1.50%, or (2) the one-, two- three- or six-month LIBOR plus a margin of 2.00% or 1.75%, depending on our ratio of Total Funded Debt to EBITDA. A commitment fee of 0.375% is payable quarterly on the undrawn portion of the revolving credit facility. At June 30, 2016, the interest rate for borrowings under the revolving credit facility was 3.75% and interest rate for borrowings under the term loan was 2.38%.

The revolving credit facility does not require amortization of principal. The term loan requires quarterly principal payments of \$1.4 million, with the balance due at maturity. All borrowings may be paid before maturity in whole or in part at our option without penalty or premium, other than reimbursement of any breakage and deployment costs in the case of LIBOR borrowings.

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

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

- a ratio of total funded debt to EBITDA of less than 2.0 to 1.0; and
- a debt service coverage ratio (as defined in the agreement) of at least 1.5 to 1.0.

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

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

As of June 30, 2016, 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. After the quarter ended we entered into an amendment to the credit facility that increases our ability to draw on the revolving credit facility. See Note 11 for further details.

#### Project Financing

**Construction and Term Loans.** We have entered into a number of construction and term loan agreements for the purpose of constructing and owning certain renewable energy plants. The physical assets and the operating agreements related to the renewable energy plants are owned by wholly owned, single member special purpose subsidiaries. These construction and term loans are structured as project financings made directly to a subsidiary, and upon acceptance of a project, the related construction loan converts into a term loan. While we are required under GAAP to reflect these loans as liabilities on our consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc. As of June 30, 2016, we had outstanding \$87.8 million in aggregate principal amount under these loans with maturities at various dates from 2017 to 2028. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 4.7% to 7.3%.

In September 2015, the Company entered into a credit and guaranty agreement for use in providing non-recourse financing for certain of its solar-PV projects currently under construction. The credit and guaranty agreement provides for a \$20.7 million construction-to-term loan credit facility and bears interest at a variable rate. On March 30, 2016, the construction loan was converted to a term loan. At June 30, 2016, \$20.6 million was outstanding under the term loan. The variable rate for this loan at June 30, 2016 was 3.1%.





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One loan with an outstanding balance as of June 30, 2016 totaling \$2.9 million, requires 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 June 30, 2016 of \$37.1 million requires Ameresco, Inc. to provide assurance to the lender of reimbursement upon any recapture of certain renewable energy Government cash grants upon the occurrence of events that cause the recapture of such grants. As of December 31, 2015, we had outstanding \$87.5 million in aggregate principal amount under these loans. Effective interest rates, after consideration for our interest rate swap contracts, ranged from 2.8% to 7.3%. These loans mature at various dates from 2017 to 2028.

These construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of June 30, 2016 we were in compliance with all of these financial and operational covenants. In addition, we do not consider it likely that we will fail to comply with these covenants during the term of these agreements.

**Federal ESPC Liabilities.** We have arrangements with certain lenders to provide advances to us during the construction or installation of projects for certain customers, typically federal governmental entities, in exchange for our assignment to the lenders of our rights to the long-term receivables arising from the ESPCs related to such projects. These financings totaled \$121.6 million and \$122.0 million in principal amounts at June 30, 2016 and December 31, 2015, 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 sheets until the completed project is accepted by the customer.

**Sale-Leaseback.** During the first quarter of 2015, we entered into an agreement with an investor which gives us the option to sell and contemporaneously lease back solar photovoltaic (“solar-PV”) projects. The lender has committed to provide up to a maximum combined funding amount of \$50.0 million through December 31, 2016, on certain projects. As of June 30, 2016, \$26.5 million remained available under the lending commitment. During the quarter ended June 30, 2016, we sold three solar-PV projects and in return received \$7.5 million as part of this arrangement. No solar-PV projects were sold during the quarter ended June 30, 2015. While we are required under GAAP to reflect these lease payments as liabilities on our consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc., except that Ameresco, Inc. has guaranteed certain obligations relating to taxes and project warranties, operation and maintenance.

**Contractual Obligations**

The following table summarizes our significant contractual obligations and commitments as of June 30, 2016 (in thousands):

	Total	Payments due by Period			
		Less than One Year	One to Three Years	Three to Five Years	More than Five Years
<b>Senior Secured Credit Facility:</b>					
Revolver	\$ 14,200	\$—	\$—	\$ 14,200	\$—
Term Loan	11,429	5,714	5,715	—	—
<b>Project Financing:</b>					
Construction and term loans	87,811	7,581	15,627	38,149	26,454
Federal ESPC liabilities(1)	121,633	—	121,633	—	—
Interest obligations(2)	45,205	6,190	10,214	8,076	20,725
Capital lease liabilities	12,236	1,588	3,692	3,262	3,694
Operating leases	17,946	4,251	6,512	3,493	3,690
<b>Total</b>	<b>\$ 310,460</b>	<b>\$ 25,324</b>	<b>\$ 163,393</b>	<b>\$ 67,180</b>	<b>\$ 54,563</b>

(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 June 30, 2016 remains constant for the term of the facility.

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Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2016, there have been no significant changes in market risk exposures that materially affected the quantitative and qualitative disclosures as described in Item 7A to our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report, or the evaluation date. Disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, after evaluating the effectiveness of our disclosure controls and procedures as of the evaluation date, concluded that as of the evaluation date, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

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

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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 June 30, 2016, 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, 2015 and Item 1A to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

## Item 2. Unregistered Sales of Equity and Use of Proceeds

## Stock Repurchase Program

The following table provides information as of and for the quarter ended June 30, 2016 regarding shares of our Class A common stock that were repurchased under our stock repurchase program authorized by the Board of Directors on April 27, 2016 (the "Repurchase Program"):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 - April 30, 2016	—	\$ —	—	\$10,000,000
May 1, 2016 - May 31, 2016	118,395	4.68	118,395	9,446,056
June 1, 2016 - June 30, 2016	299,303	4.60	299,303	8,067,945
Total	417,698	\$ 4.63	417,698	\$8,067,945

Under the Repurchase Program, we are authorized to repurchase up to \$10.0 million of our Class A common stock. Stock repurchases may be made from time to time through the open market and privately negotiated transactions. The amount and timing of any share repurchases will depend upon a variety of factors, including the trading price of our Class A common stock, liquidity, securities laws restrictions, other regulatory restrictions, potential alternative uses of capital, and market and economic conditions. The Repurchase Program may be suspended or terminated at any time without prior notice, and has no expiration date.

## Item 6. Exhibits

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



SIGNATURES

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

AMERESCO, INC.

Date: August 9, 2016 By: /s/ John R. Granara, III  
John R. Granara, III  
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. 1 to Third Amended and Restated Credit and Security Agreement dated April 22, 2016 among Ameresco, Inc., certain guarantors party thereto, certain lenders party thereto from time to time and Bank of America, N.A. as Administrative Agent.
- 10.2\* Amendment No. 2 to Third Amended and Restated Credit and Security Agreement dated May 4, 2016 among Ameresco, Inc., certain guarantors party thereto, certain lenders party thereto from time to time and Bank of America, N.A. as Administrative Agent.
- 10.3\* Seventh Amendment to Lease dated May 6, 2016 by and between 111 MPA LLC and Ameresco, Inc.
- 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 June 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Redeemable Non-Controlling Interest and Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.
- \*Filed herewith.
- \*\*Furnished herewith.