

Ameresco, Inc.
Form 10-Q
November 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-34811

Ameresco, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

111 Speen Street, Suite 410

Framingham, Massachusetts

(Address of Principal Executive Offices)

(508) 661-2200

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

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

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

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

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

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

Class	Shares outstanding as of November 2, 2012
Class A Common Stock, \$0.0001 par value per share	27,081,880
Class B Common Stock, \$0.0001 par value per share	18,000,000

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AMERESCO, INC.
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 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012
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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	September 30, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$26,277,366	\$26,176,800
Restricted cash	12,372,356	15,771,219
Accounts receivable, net	109,296,773	103,092,925
Accounts receivable retainage	26,089,216	21,059,147
Costs and estimated earnings in excess of billings	69,251,022	63,136,398
Inventory, net	8,635,633	7,093,211
Prepaid expenses and other current assets	8,992,963	8,310,732
Income tax receivable	9,662,771	7,851,575
Deferred income taxes	6,456,671	7,409,218
Project development costs	6,027,689	8,262,787
Total current assets	283,062,460	268,164,012
Federal ESPC receivable	110,212,186	138,557,444
Property and equipment, net	7,086,164	9,245,310
Project assets, net	177,854,734	197,638,679
Deferred financing fees, net	2,994,692	2,812,625
Goodwill	47,881,346	50,317,305
Intangible assets, net	12,727,528	10,390,246
Other assets	3,778,357	4,573,877
	362,535,007	413,535,486
	\$645,597,467	\$681,699,498
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$11,563,983	\$11,363,774
Accounts payable	93,506,089	79,153,405
Accrued expenses and other current liabilities	8,917,723	12,827,600
Book overdraft	7,297,122	—
Billings in excess of cost and estimated earnings	26,982,858	28,246,514
Total current liabilities	148,267,775	131,591,293
Long-term debt, less current portion	196,401,588	223,977,467
Deferred income taxes	29,953,103	29,526,453
Deferred grant income	6,024,099	6,694,046
Other liabilities	28,529,867	30,860,993
	\$260,908,657	\$291,058,959

Commitments and contingencies (Note 7)

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

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AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31, 2011	September 30, 2012 (Unaudited)
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2011 and September 30, 2012	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 30,713,837 shares issued and 25,880,553 outstanding at December 31, 2011, 31,865,164 shares issued and 27,031,880 outstanding at September 30, 2012	3,071	3,186
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at December 31, 2011 and September 30, 2012	1,800	1,800
Additional paid-in capital	86,067,852	93,987,142
Retained earnings	161,335,621	174,780,969
Accumulated other comprehensive loss	(1,868,352	) (612,594)
Minority interest	63,614	71,314
Less - treasury stock, at cost, 4,833,284 shares	(9,182,571	) (9,182,571)
Total stockholders' equity	236,421,035	259,049,246
	\$645,597,467	\$681,699,498

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

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,	
	2011	2012
	(Unaudited)	
Revenue:		
Energy efficiency revenue	\$ 188,718,434	\$ 108,418,955
Renewable energy revenue	39,085,134	55,487,250
	227,803,568	163,906,205
Direct expenses:		
Energy efficiency expenses	155,890,159	87,898,560
Renewable energy expenses	32,058,319	41,205,349
	187,948,478	129,103,909
Gross profit	39,855,090	34,802,296
Operating expenses:		
Salaries and benefits	10,984,929	12,441,502
Project development costs	5,174,930	4,288,657
General, administrative and other	7,286,542	7,362,802
	23,446,401	24,092,961
Operating income	16,408,689	10,709,335
Other expenses, net (Note 9)	(1,359,913	) (1,254,217
Income before provision for income taxes	15,048,776	9,455,118
Income tax provision	(2,690,196	) (2,683,936
Net income	\$ 12,358,580	\$ 6,771,182
Net income per share attributable to common shareholders:		
Basic	\$0.29	\$0.15
Diluted	\$0.27	\$0.15
Weighted average common shares outstanding:		
Basic	43,116,861	44,788,160
Diluted	46,308,032	46,247,239
The accompanying notes are an integral part of these condensed consolidated financial statements.		

Table of ContentsAMERESCO, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended September 30,	
	2011	2012
	(Unaudited)	
Revenue:		
Energy efficiency revenue	\$418,697,750	\$341,620,742
Renewable energy revenue	121,007,530	132,958,737
	539,705,280	474,579,479
Direct expenses:		
Energy efficiency expenses	344,499,360	275,391,607
Renewable energy expenses	95,216,122	104,003,905
	439,715,482	379,395,512
Gross profit	99,989,798	95,183,967
Operating expenses:		
Salaries and benefits	29,232,330	38,369,446
Project development costs	14,839,723	12,335,875
General, administrative and other	17,848,103	22,085,897
	61,920,156	72,791,218
Operating income	38,069,642	22,392,749
Other expenses, net (Note 9)	(3,248,919	) (3,654,948
Income before provision for income taxes	34,820,723	18,737,801
Income tax provision	(8,341,730	) (5,292,453
Net income	\$26,478,993	\$13,445,348
Net income per share attributable to common shareholders:		
Basic	\$0.63	\$0.30
Diluted	\$0.58	\$0.29
Weighted average common shares outstanding:		
Basic	42,275,367	44,492,509
Diluted	45,377,104	46,010,138

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

Table of ContentsAMERESCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,	
	2011	2012
	(Unaudited)	
Net income	\$12,358,580	\$6,771,182
Other comprehensive income (loss):		
Unrealized loss from interest rate hedge, net of tax	(1,775,890	) (150,084
Foreign currency translation adjustment	(2,267,225	) 1,086,724
Total other comprehensive (loss) income	(4,043,115	) 936,640
Comprehensive income	\$8,315,465	\$7,707,822

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

AMERESCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30,	
	2011	2012
	(Unaudited)	
Net income	\$26,478,993	\$13,445,348
Other comprehensive income (loss):		
Unrealized (loss) gain from interest rate hedge, net of tax	(1,991,877	) 297,950
Foreign currency translation adjustment	(1,377,463	) 957,808
Total other comprehensive (loss) income	(3,369,340	) 1,255,758
Comprehensive income	\$23,109,653	\$14,701,106

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

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AMERESCO, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(Unaudited)

	Preferred Stock	Class B Common Stock	Common Class A Stock	Common Class A Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Minority Co Interest	Ac Ot In (L
Balance, December 31, 2011	\$ 18,000,000	\$ 1,800	30,713,837	\$ 3,071	\$ 86,067,852	\$ 161,335,621	4,833,284	\$(9,182,571)	\$ 63,614	\$(
Exercise of stock options	—	—	1,151,327	115	3,016,141	—	—	—	—	—
Stock-based compensation expense, including excess tax benefits of \$2,375,223	—	—	—	—	4,903,149	—	—	—	—	—
Changes in minority interest in foreign subsidiary	—	—	—	—	—	—	—	—	7,700	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	95
Unrealized gain from interest rate hedge, net of tax	—	—	—	—	—	—	—	—	—	29
Net income	—	—	—	—	—	13,445,348	—	—	—	—
Balance, September 30, 2012	\$ 18,000,000	\$ 1,800	31,865,164	\$ 3,186	\$ 93,987,142	\$ 174,780,969	4,833,284	\$(9,182,571)	\$ 71,314	\$(

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,	
	2011	2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$12,358,580	\$6,771,182
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of project assets	2,676,004	2,903,901
Depreciation of property and equipment	845,947	721,330
Amortization of deferred financing fees	106,776	95,667
Amortization of intangible assets	501,000	1,113,033
Provision for bad debts	154	6,024
Stock-based compensation expense	432,624	853,866
Deferred income taxes	4,097,831	(951,974)
Excess tax benefits from stock-based compensation arrangements	(1,819,749)	(723,710)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	20,465,804	5,688,561
Accounts receivable	(45,257,456)	(5,633,607)
Accounts receivable retainage	(915,906)	3,150,711
Federal ESPC receivable	(21,910,697)	(2,569,522)
Inventory	439,704	2,052,646
Costs and estimated earnings in excess of billings	2,294,809	(5,950,854)
Prepaid expenses and other current assets	(1,149,248)	2,564,642
Project development costs	(1,383,993)	(1,078,080)
Other assets	(1,554,165)	312,248
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	38,898,718	(2,942,065)
Billings in excess of cost and estimated earnings	4,517,219	(7,286,785)
Other liabilities	(4,679,466)	2,826,363
Income taxes payable	1,352,618	1,155,924
Net cash provided by operating activities	10,317,108	3,079,501
Cash flows from investing activities:		
Purchases of property and equipment	(863,145)	(1,715,410)
Purchases of project assets	(16,837,529)	(11,604,966)
Grant awards and rebates received on project assets	—	395,007
Acquisitions, net of cash received	(60,953,588)	(3,677,393)
Net cash used in investing activities	\$(78,654,262)	\$(16,602,762)
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Three Months Ended September 30,	
	2011	2012
	(Unaudited)	
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$1,819,749	\$723,710
Payments of financing fees	(78,924	) (164,753
Proceeds from exercises of options	905,557	1,216,985
Net proceeds from senior secured credit facility	41,571,429	12,017,429
Restricted cash	(1,136,862	) (1,454,199
Payments on long-term debt	(1,444,018	) (1,245,455
Net cash provided by financing activities	41,636,931	11,093,717
Effect of exchange rate changes on cash	(1,347,221	) (303,643
Net decrease in cash and cash equivalents	(28,047,444	) (2,733,187
Cash and cash equivalents, beginning of period	59,782,193	28,909,987
Cash and cash equivalents, end of period	\$31,734,749	\$26,176,800
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$1,246,530	\$2,073,848
Income taxes	\$1,764,698	\$753,889
Acquisitions, net of cash received:		
Accounts receivable	\$18,287,718	\$320,997
Costs and estimated earnings in excess of billings	11,269,294	—
Prepaid expenses and other current assets	95,674	107,715
Property and equipment	604,637	43,115
Project assets	6,970,185	—
Goodwill	21,262,668	2,291,163
Intangible assets	13,722,000	1,712,021
Other assets	52,062	100
Accounts payable and accrued expenses	(7,175,650	) (605,869
Billings in excess of cost and estimated earnings	—	(160,939
Deferred tax liabilities	(2,500,000) —
Other liabilities	(1,635,000	) (30,910
	\$60,953,588	\$3,677,393

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

Table of ContentsAMERESCO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2011	2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$26,478,993	\$13,445,348
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation of project assets	7,126,617	8,359,908
Depreciation of property and equipment	1,927,669	2,002,804
Amortization of deferred financing fees	312,431	367,145
Amortization of intangible assets	501,000	4,084,055
Provision for bad debts	24,374	83,767
Gain on sale of asset	—	(800,000)
Stock-based compensation expense	2,027,200	2,527,926
Deferred income taxes	7,243,425	(1,458,605)
Excess tax benefits from stock-based compensation arrangements	(5,721,385)	(2,375,223)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	98,682,379	29,841,218
Accounts receivable	(57,839,917)	6,936,036
Accounts receivable retainage	(580,598)	5,230,093
Federal ESPC receivable	(95,550,030)	(28,345,258)
Inventory	(1,543,288)	1,542,422
Costs and estimated earnings in excess of billings	(8,600,351)	6,246,532
Prepaid expenses and other current assets	(1,812,750)	885,482
Project development costs	(623,548)	(2,234,165)
Other assets	(1,758,820)	(629,034)
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	16,997,701	(11,702,805)
Billings in excess of cost and estimated earnings	4,189,191	957,105
Other liabilities	97,928	3,351,544
Income taxes payable	(3,336,415)	4,239,382
Net cash (used in) provided by operating activities	(11,758,194)	42,555,677
Cash flows from investing activities:		
Purchases of property and equipment	(2,669,779)	(4,096,980)
Purchases of project assets	(31,558,420)	(31,303,607)
Grant awards and rebates received on project assets	6,695,711	4,233,773
Acquisitions, net of cash received	(60,953,588)	(3,677,393)
Additional purchase price paid on 2010 acquisition (Note 3)	(1,956,366)	—
Net cash used in investing activities	\$(90,442,442)	\$(34,844,207)
The accompanying notes are an integral part of these condensed consolidated financial statements.		

Table of ContentsAMERESCO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Nine Months Ended September 30,	
	2011	2012
	(Unaudited)	
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$5,721,385	\$2,375,223
Book overdraft	—	(7,297,122)
Payments of financing fees	(623,213)	(185,078)
Proceeds from exercises of options	4,907,645	3,016,256
Net proceeds from senior secured credit facility	81,571,429	4,160,287
Proceeds from long-term debt financing	5,500,089	—
Minority interest	—	7,700
Restricted cash	(2,812,428)	(6,252,306)
Payments on long-term debt	(3,998,627)	(3,380,412)
Net cash provided by (used in) financing activities	90,266,280	(7,555,452)
Effect of exchange rate changes on cash	(1,021,916)	(256,584)
Net decrease in cash and cash equivalents	(12,956,272)	(100,566)
Cash and cash equivalents, beginning of year	44,691,021	26,277,366
Cash and cash equivalents, end of period	\$31,734,749	\$26,176,800
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$3,063,570	\$4,100,251
Income taxes	\$6,800,454	\$1,260,810
Acquisitions, net of cash received:		
Accounts receivable	\$18,287,718	\$320,997
Costs and estimated earnings in excess of billings	11,269,294	—
Prepaid expenses and other current assets	95,674	107,715
Property and equipment	604,637	43,115
Project assets	6,970,185	—
Goodwill	21,262,668	2,291,163
Intangible assets	13,722,000	1,712,021
Other assets	52,062	100
Accounts payable and accrued expenses	(7,175,650)	(605,869)
Billings in excess of cost and estimated earnings	—	(160,939)
Deferred income taxes	(2,500,000)	—
Other liabilities	(1,635,000)	(30,910)
	\$60,953,588	\$3,677,393

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

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AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

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

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

The condensed consolidated financial statements as of December 31, 2011 and September 30, 2012, and for the three and nine months ended September 30, 2011 and 2012, include the accounts of Ameresco Inc., its wholly-owned subsidiaries and one subsidiary for which there is a minority shareholder. All significant intercompany transactions have been eliminated. The condensed consolidated financial statements as of September 30, 2012, and for the three and nine months ended September 30, 2011 and 2012, are unaudited. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted. The interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation in conformity with GAAP. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 15, 2012. 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

Codification

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

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

Principles of Consolidation

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

Use of Estimates

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

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

Cash and Cash Equivalents

Cash includes cash on deposit, overnight repurchase agreements and amounts invested in highly liquid money market funds. Cash equivalents consist of short term investments with original maturities of three months or less. The Company maintains accounts with financial institutions and the balances in such accounts, at times, exceed federally insured limits. This

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AMERESCO, INC.

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

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.

A book overdraft, representing certain checks issued in the normal course of business on a disbursement bank account but not yet paid by that bank, totaled \$7,297,122 as of December 31, 2011. GAAP requires that the book overdraft be classified as a current liability on the accompanying condensed consolidated balance sheet. The book overdraft was funded through normal collections of funds or transfers from bank balances at other financial institutions, or from draws under the Company's revolving line of credit. Under the terms of the senior secured credit facility with the bank, the respective financial institution is not legally obligated to honor the book overdraft balance as of December 31, 2011, or such balances on any given date.

There were no book overdrafts as of September 30, 2012.

For purposes of reporting cash flows, the Company reports the book overdraft as a financing activity.

Restricted Cash

Restricted cash consists of cash held in an escrow account in association with construction draws for energy savings performance contracts ("ESPCs") and construction of project assets, as well as cash required under term loans to be maintained in debt service reserve accounts until all obligations have been indefeasibly paid in full.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified. Changes in the allowance for doubtful accounts for the nine months ended September 30, 2011 and 2012 are as follows:

	Nine Months Ended September 30,	
	2011	2012
Allowance for doubtful accounts, beginning of period	\$1,677,278	\$1,135,391
Charges to costs and expenses	24,374	83,767
Account write-offs and other	4,915	(124,634)
Allowance for doubtful accounts, end of period	\$1,706,567	\$1,094,524

At December 31, 2011 and September 30, 2012, no one customer accounted for more than 10% of the Company's total accounts receivable.

During the three and nine months ended September 30, 2011 and 2012, no one customer accounted for more than 10% of the Company's total revenue.

Accounts Receivable Retainage

Accounts receivable retainage represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from five percent to ten percent of the total invoice.

Inventory

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

Prepaid Expenses

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

Federal ESPC Receivable

Federal ESPC receivables represent the amount to be paid by various federal government agencies for work performed and earned by the Company under specific ESPCs. The Company assigns certain of its rights to receive those payments to third-party lenders that provide construction and permanent financing for such contracts. The receivable

is recognized as revenue as

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

each project is constructed. Upon completion and acceptance of the project by the government, the assigned ESPC receivable and corresponding related project debt is eliminated from the Company's consolidated financial statements.

Project Development Costs

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

Property and Equipment

Property and equipment consists primarily of office and computer equipment, and is recorded at cost. Major additions and improvements are capitalized as additions to the property and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets, are expensed as incurred.

Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

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

Project Assets

Project assets consist of costs of materials, direct labor, interest costs, outside contract services and project development costs incurred in connection with the construction of small-scale renewable energy plants that the Company owns and the implementation of energy savings contracts. These amounts are capitalized and amortized over the lives of the related assets or the terms of the related contracts.

The Company capitalizes interest costs relating to construction financing during the period of construction. The interest capitalized is included in the total cost of the project at completion. The amount of interest capitalized for the three and nine months ended September 30, 2012 was \$252,879 and \$687,305, respectively. No interest was capitalized for the three and nine months ended September 30, 2011.

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

The Company evaluates its long-lived assets for impairment as events or changes in circumstances indicate the carrying value of these assets may not be fully recoverable. The Company evaluates recoverability of long-lived assets to be held and used by estimating the undiscounted future cash flows before interest associated with the expected uses and eventual disposition of those assets. When these comparisons indicate that the carrying value of those assets is greater than the undiscounted cash flows, the Company recognizes an impairment loss for the amount that the carrying value exceeds the fair value.

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

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

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

The Company received \$6,695,711 in Section 1603 grants during the nine months ended September 30, 2011, and \$395,007 and \$2,946,773 in Section 1603 grants during the three and nine months ended September 30, 2012, respectively.

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 \$6,024,099 and \$6,694,046 in the accompanying condensed consolidated balance sheets at December 31, 2011 and September 30, 2012, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

The Company has received cash rebates from a utility company, which were accounted for as reductions in the book value of the related project assets. The rebates were one-time payments based on the cost and efficiency of the installed units, and are earned upon installation and inspection by the utility. The payments are not related to, or subject to adjustment based on, future operating performance. The rebates were payable from the utility to the Company and are applied against the cost of construction, thereby reducing the book value of the corresponding project assets and have been treated as an investing activity in the accompanying condensed consolidated statements of cash flows. The Company received a rebate of \$1,287,000 during the nine months ended September 30, 2012. No rebates were received during the nine months ended September 30, 2011.

Deferred Financing Fees

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

Goodwill and Intangible Assets

The Company has classified as goodwill the amounts paid in excess of fair value of the net assets (including tax attributes) of companies acquired in purchase transactions. The Company has recorded intangible assets related to customer contracts, customer relationships, non-compete agreements, trade names and technology, each with defined useful lives. The Company assesses the impairment of goodwill and intangible assets that have indefinite lives on an annual basis (December 31st) and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than their carrying values. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets.

During the third quarter of 2011, the Company entered into two separate stock purchase agreements to acquire 100% of the capital stock of each of Applied Energy Group ("AEG") and APS Energy Services, Inc. (now known as "Ameresco Southwest"). During the fourth quarter of 2011, the Company entered into an asset purchase agreement to acquire the xChangePoint® and energy projects businesses of Energy and Power Solutions, Inc. ("EPS") (now known as "Ameresco Intelligent Systems", or "AIS"). During the third quarter of 2012, the Company's wholly owned subsidiary Ameresco Canada Inc. entered into a stock purchase agreement to acquire 100% of the capital stock of FAME Facility Software Solutions, Inc. ("FAME"). The net purchase price for each acquisition has been allocated to the net identified assets acquired based on the respective fair values of such acquired assets at the dates of each acquisition. The residual amounts were allocated to goodwill. The acquisition of AEG resulted in the Company recording goodwill totaling \$8,728,169. For the acquisition of Ameresco Southwest, the Company recorded goodwill of \$16,545,434. For the acquisition of AIS, the Company recorded goodwill of \$1,549,467. The acquisition of FAME resulted in the Company recording goodwill totaling \$2,291,163. Acquired intangible assets other than goodwill that are subject to amortization include customer contracts and customer relationships, as well as software/technology, trade names and non-compete agreements. The intangible assets are amortized over periods ranging from one to

fourteen years from their respective acquisition dates. See Notes 3 and 4 for additional disclosures.

Other Assets

Other assets consist primarily of notes and contracts receivable due to the Company.

Asset Retirement Obligations

The Company recognizes a liability for the fair value of required asset retirement obligations ("AROs") when such obligations are incurred. The liability is estimated on a number of assumptions requiring management's judgment, including equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon

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satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the condensed consolidated statements of income. As of December 31, 2011 and September 30, 2012, the Company had no AROs.

Other Liabilities

Other liabilities consist primarily of deferred revenue related to multi-year operation and maintenance contracts which expire as late as 2031. Other liabilities also include the fair value of interest rate swaps and deferred compensation relating to the 2010 and July 2011 acquisitions. See Notes 3 and 7 for additional disclosures.

Revenue Recognition

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

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

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

At December 31, 2011 and September 30, 2012, billings in excess of cost and estimated earnings represents advanced billings on certain construction contracts. Costs and estimated earnings in excess of billings represent certain amounts under customer contracts that were earned and billable but not invoiced.

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

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

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

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

Direct Expenses

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

materials, services and equipment.

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

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Income Taxes

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

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

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

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

Foreign Currency Translation

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

Financial Instruments

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

Stock-Based Compensation Expense

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

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

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

The Company also accounts for equity instruments issued to non-employee directors and consultants at fair value. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the year ended December 31, 2011 or during the nine months ended September 30, 2012.

Fair Value Measurements

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

The Company's financial instruments include cash and cash equivalents, book overdrafts, accounts and notes receivable, interest rate swaps, accounts payable, accrued expenses, equity-based liabilities and short- and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, book overdrafts, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of September 30, 2012, the carrying value of the Company's fixed-rate long-term debt exceeds its fair value by approximately \$4,904,716. This is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

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

Derivative Financial Instruments

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

Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates. The Company seeks to manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. As a matter of policy, the Company does not use derivatives for speculative purposes. The Company considers the use of derivatives with all financing transactions to mitigate risk.

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A portion of the Company's project financing includes two projects that each utilize an interest rate swap instrument. During 2007, the Company entered into two fifteen-year interest rate swap contracts under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swaps cover initial notional amounts of \$13,080,607 and \$3,256,395, each a variable rate note at fixed interest rates of 5.4% and 5.3%, respectively, and expire in September 2023 and February 2021, respectively. These interest rate swaps qualified, but were not designated, as cash flow hedges until April 1, 2010. Since April 2010, they have been designated as hedges. Accordingly, the Company recognized the change in fair value of these derivatives in the condensed consolidated statements of income prior to April 1, 2010, and in the condensed consolidated statements of comprehensive income thereafter. Cash flows from derivative instruments were reported as operating activities in the condensed consolidated statements of cash flows.

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of approximately \$27,900,000 variable rate note at a fixed interest rate of 6.99% and expires in December 2024.

As of April 1, 2010, and in accordance with accounting standards, all then existing swaps held by the Company have been designated as cash flow hedges. Accordingly, the Company recognizes the fair value of the swaps in its condensed consolidated balance sheets and any changes in the fair value are recorded as adjustments to other comprehensive income (loss).

In July 2011, the Company entered into a five-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of \$38,571,429 variable rate note at a fixed interest rate of 1.965% and expires in June 2016. See Note 11 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		Nine Months Ended	
	September 30,		September 30,	
	2011	2012	2011	2012
Basic and diluted net income	\$12,358,580	\$6,771,182	\$26,478,993	\$13,445,348
Basic weighted-average shares outstanding	43,116,861	44,788,160	42,275,367	44,492,509
Effect of dilutive securities:				
Preferred stock	—	—	—	—
Stock options	3,191,171	1,459,079	3,101,737	1,517,629
Diluted weighted-average shares outstanding	46,308,032	46,247,239	45,377,104	46,010,138

For the three and nine months ended September 30, 2011, 694,688 and 88,688 shares of common stock, respectively, related to stock options were excluded from the calculation of dilutive shares as the effect would be anti-dilutive. For the three and nine months ended September 30, 2012, 691,688 shares of common stock related to stock options were excluded from the calculation of dilutive shares as the effect would be anti-dilutive.

Business Segments

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

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four regions meet the aggregation criteria set forth in ASC 280, Segment Reporting. The "all other" category includes activities, such as certain O&M and sales of renewable energy and certain other renewable energy products, that are managed centrally at the Company's corporate headquarters. It also includes all amortization of intangible assets and all corporate operating expenses — salaries and benefits, project development costs and general, administrative and other — not specifically allocated to the segments. For the three months ended September 30, 2011 and 2012, unallocated corporate expenses were \$10,259,457 and \$11,244,873, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2011 and 2012, was \$194,499 and \$6,370,389, respectively. For the nine months ended September 30, 2011 and 2012, unallocated corporate expenses were \$28,636,642 and \$33,899,622, respectively. Income before taxes and unallocated corporate expenses for all other for the nine months ended September 30, 2011 and 2012, was \$7,564,040 and \$15,261,663, respectively. See Note 12 for additional disclosures.

3. BUSINESS ACQUISITIONS AND RELATED TRANSACTIONS

In August 2010, the Company acquired Quantum Engineering and Development Inc. ("Quantum") for an initial cash payment of \$6,150,000. During April 2011, the Company made an additional payment of \$1,956,366 in accordance with certain provisions of the stock purchase agreement with the former shareholders of Quantum. The payment has been reflected retrospectively as additional goodwill in the accompanying condensed consolidated balance sheets in accordance with ASC 805, Business Combinations.

In July 2011, the Company acquired all of the outstanding capital stock of AEG for an initial cash payment of \$11,993,236. The Company deposited \$1,000,000 of the purchase price with a third-party escrow agent as security for the selling stockholders' indemnification obligations under the terms of the acquisition agreement. The former stockholders of AEG, all of whom are now employees of the Company, may be entitled to receive up to \$5,000,000 in additional consideration if AEG meets certain financial performance milestones. The fair value of the additional consideration was estimated to be \$1,652,000, and is included in other liabilities in the purchase allocation table below.

In August 2011, the Company acquired Ameresco Southwest (then known as APS Energy Services, Inc.) from Pinnacle West Capital Corporation. The Company made a cash payment of \$50,057,113 to acquire all of the outstanding stock of Ameresco Southwest.

In December 2011, the Company's wholly owned subsidiary AIS acquired the xChange Point® and energy projects businesses, including automated demand response, from EPS. The Company made an initial cash payment of \$4,497,141 to acquire these assets. The purchase price is subject to post-closing adjustments for pro-ration of certain revenue and expense items and for certain indemnity obligations of EPS. The Company deposited approximately \$900,000 of the initial cash payment with a third-party escrow agent as security for these matters.

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

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The Company's acquisitions in 2010, 2011 and 2012 were accounted for using the acquisition method in accordance with ASC 805, Business Combinations. The purchase price for each has been allocated to the assets based on their estimated fair values at the date of each acquisition as set forth in the table below. The excess purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill. In the Quantum acquisition, identified intangible assets had de minimis value as the Company was primarily acquiring an assembled workforce in addition to the tangible net assets identified below. For the 2011 and 2012 acquisitions, intangible assets identified have been recorded and are being amortized over periods ranging from one to fourteen years. See Note 4 for additional information.

	2011		2012	
	AEG	Ameresco Southwest	AIS	FAME
Cash	\$314,642	\$—	\$—	\$809,557
Accounts receivable	4,138,015	14,149,703	—	320,997
Costs and estimated earnings in excess of billings	—	11,269,294	163,340	—
Inventory	—	—	47,193	—
Prepaid expenses and other current assets	62,345	33,329	—	107,715
Project development costs	—	—	130,044	—
Property and equipment and project assets	7,301	6,447,299	216,297	43,115
Goodwill	8,728,169	16,545,434	1,549,467	2,291,163
Intangible assets	4,904,000	7,019,000	2,557,000	1,712,021
Other assets	52,062	—	—	100
Accounts payable	(1,610,734)	(1,992,748)	—	(5,713)
Accrued liabilities	(1,011,032)	(3,414,198)	(65,627)	(600,156)
Billings in excess of cost and estimated earnings	—	—	(100,573)	(160,939)
Deferred taxes and other liabilities	(3,591,532)	—	—	(30,910)
Purchase price	\$11,993,236	\$50,057,113	\$4,497,141	\$4,486,950
Total, net of cash received	\$11,678,594	\$50,057,113	\$4,497,141	\$3,677,393
Total fair value of consideration	\$11,993,236	\$50,057,113	\$4,497,141	\$4,486,950

The allocation of the purchase price for the 2012 acquisition is preliminary and based on management's current best estimates.

The results of the acquired companies since the dates of the acquisitions have been included in the Company's operations as presented in the accompanying condensed consolidated statements of income, condensed consolidated statements of comprehensive income and condensed consolidated statements of cash flows. The year-to-date revenue and pre-tax income (loss) of the acquisitions, including the amortization of acquired intangible assets, is as follows:

	Three Months Ended September 30, 2012		
	AEG	Ameresco Southwest	AIS
Revenue	\$4,016,327	\$14,595,348	\$1,998,577
Pre-tax income (loss)	\$169,900	\$1,504,066	\$(281,288)
	Nine Months Ended September 30, 2012		
	AEG	Ameresco Southwest	AIS
Revenue	\$12,716,577	\$37,986,302	\$8,015,249
Pre-tax income (loss)	\$817,837	\$2,775,583	\$(241,073)

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

The acquisition related information above, as well as the supplemental pro forma unaudited information that follows, does not include any data related to the 2012 FAME acquisition as this has been deemed immaterial to the Company. The following supplemental pro forma unaudited information has been prepared for informational purposes only and is intended to represent or be indicative of what would have occurred had the acquisitions been completed on January 1, 2011, and are not indicative of any future results. Financial information for the period prior to the dates of the acquisitions have been provided by the sellers for purposes of this pro forma unaudited presentation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Pro forma	2012 Actual	2011 Pro forma	2012 Actual
Revenue	\$238,048,397	\$163,906,205	\$592,947,701	\$474,579,479
Income	\$12,312,191	\$6,771,182	\$25,082,193	\$13,445,348
Basic earnings per share	\$0.29	\$0.15	\$0.59	\$0.30
Diluted earnings per share	\$0.27	\$0.15	\$0.55	\$0.29

4. GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill balances included in total assets by segment. There was one acquisition during the three and nine months ended September 30, 2012. Goodwill consisted of the following at December 31, 2011 and September 30, 2012:

	December 31, 2011	Acquisitions	Foreign Currency Translation and Other Adjustments	September 30, 2012
U.S. Federal	\$3,374,967	\$—	\$—	\$3,374,967
Central U.S. Region	1,972,415	—	—	1,972,415
Other U.S. Regions	21,736,140	—	—	21,736,140
Canada	2,874,383	2,291,163	144,796	5,310,342
All Other	17,923,441	—	—	17,923,441
Total	\$47,881,346	\$2,291,163	\$144,796	\$50,317,305

Customer contracts are amortized ratably over the period of the acquired customer contracts (ranging in periods from approximately one to five years). All other intangible assets are amortized over periods ranging from approximately four to fourteen years, as defined by the nature of the respective intangible asset. The following table presents intangible asset balances included in total assets by segment. There was one acquisition during the three and nine months ended September 30, 2012. Intangible assets, net, consisted of the following as of December 31, 2011 and September 30, 2012:

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

	December 31, 2011	Acquisitions	2012 Amortization	Foreign Currency Translation	September 30, 2012
Other U.S. Regions:					
Customer contracts	\$1,060,433	\$—	\$(1,060,433)	\$—	\$—
Customer relationships	3,240,593	—	(826,219)	—	2,414,374
Non-compete agreements	1,393,575	—	(412,755)	—	980,820
Technology	200,582	—	(38,940)	—	161,642
Canada:					
Customer contracts	—	509,518	(41,554)	10,001	477,965
Customer relationships	—	157,542	(2,654)	3,310	158,198
Non-compete agreements	—	290,156	(9,811)	5,991	286,336
Technology	—	677,031	(29,615)	13,835	661,251
Trade names	—	77,774	(2,214)	1,615	77,175
All Other:					
Customer contracts	2,551,124	—	(931,810)	—	1,619,314
Customer relationships	2,073,478	—	(117,858)	—	1,955,620
Non-compete agreements	398,222	—	(74,667)	—	323,555
Technology	1,386,506	—	(410,053)	—	976,453
Trade names	423,015	—	(125,472)	—	297,543
Total	\$12,727,528	\$1,712,021	\$(4,084,055)	\$34,752	\$10,390,246

Amortization expense for the three and nine months ended September 30, 2012, related to customer contracts was \$400,084 and \$2,033,797, respectively, and is included in energy efficiency expenses in the condensed consolidated statements of income. Amortization expense for the three and nine months ended September 30, 2012 related to customer relationships, non-compete agreements, technology and trade names was \$712,949 and \$2,050,258, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of income.

5. INCOME TAXES

The provision for income taxes was \$2,690,196 and \$2,683,936, for the three months ended September 30, 2011 and 2012, respectively. The provision for income taxes was \$8,341,730 and \$5,292,453, for the nine months ended September 30, 2011 and 2012, respectively. The effective tax rate was 17.9% for the three months ended September 30, 2011 and 28.4% for the three months ended September 30, 2012. The effective tax rate was 24.0% for the nine months ended September 30, 2011 and 28.2% for the nine months ended September 30, 2012. The tax rate for the third quarter of 2011 included a net tax benefit of \$936,389 relating to accrued interest on tax positions that were resolved during the related period. The tax rate for the third quarter of 2012 included a net tax expense of \$1,820,848 including \$49,060 of interest relating to an increase in the reserve for uncertain tax positions recorded during the period.

6. STOCK INCENTIVE PLAN

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

The Company's 2010 Stock Incentive Plan (the "2010 Plan"), which became effective upon the closing of the Company's initial public offering, was adopted by the Company's Board of Directors in May 2010 and approved by its

stockholders in June 2010. The 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards and other stock-based awards. Upon its effectiveness, 10,000,000 shares of the Company's Class A common stock were reserved for issuance under the 2010 Plan. As of September 30, 2012, the Company had granted options to purchase 964,144 shares of Class A common stock under the 2010 Plan.

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AMERESCO, INC.

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

Stock Option Grants

The Company has granted stock options to certain employees and directors, including its principal and controlling stockholder, under the 2000 Plan. The Company will grant no further stock options or restricted stock awards under the 2000 Plan. The Company has also granted stock options to certain employees and directors under the 2010 Plan. At September 30, 2012, 9,039,574 shares were available for grant under the 2010 Plan. The following table summarizes the collective activity under the 2000 Plan and the 2010 Plan:

	Number of Options	Weighted-Average Exercise Price
Outstanding at December 31, 2011	5,424,612	\$ 5.151
Granted	706,644	11.782
Exercised	(1,151,327)	2.620
Forfeited	(36,968)	5.681
Outstanding at September 30, 2012	4,942,961	\$ 6.684
Options exercisable at September 30, 2012	3,292,991	\$ 4.671
Expected to vest at September 30, 2012	1,602,873	\$ 10.809
Options exercisable at December 31, 2011	3,896,512	\$ 3.773

The weighted-average remaining contractual life of all options expected to vest at September 30, 2012 was 8.41 years.

The total intrinsic value of options exercised during the nine months ended September 30, 2012 was \$11,714,891.

The following table summarizes information about stock options outstanding at September 30, 2012:

Related Plan	Exercise Price	Outstanding Options		Exercisable Options		
		Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2000 Plan	1.500	20,000	0.33	1.500	20,000	1.500
2000 Plan	1.750	110,999	0.78	1.750	110,999	1.750
2000 Plan	1.875	112,500	0.98	1.875	112,500	1.875
2000 Plan	2.750	454,231	1.76	2.750	448,231	2.750
2000 Plan	3.000	41,600	2.32	3.000	41,600	3.000
2000 Plan	3.250	603,904	3.44	3.250	603,904	3.250
2000 Plan	3.410	676,692	4.27	3.410	676,692	3.410
2000 Plan	4.220	383,109	4.90	4.220	356,609	4.220
2000 Plan	6.055	976,500	6.74	6.055	602,500	6.055
2010 Plan	10.750	76,995	9.67	10.750	—	10.750
2010 Plan	10.950	140,000	8.96	10.950	28,000	10.950
2010 Plan	11.630	155,093	9.71	11.630	—	11.630
2010 Plan	11.980	499,650	9.57	11.980	—	11.980
2000 Plan	13.045	603,000	7.57	13.045	271,350	13.045
2010 Plan	14.810	60,000	8.65	14.810	12,000	14.810
2010 Plan	16.290	28,688	8.32	16.290	8,606	16.290
		4,942,961			3,292,991	

During the nine months ended September 30, 2012, a total of 1,151,327 shares were issued upon the exercise of options under the 2000 Plan at an average price of \$2.62 per share. Cash received from option exercises under all stock-based payment arrangements for the nine months ended September 30, 2012 was \$3,016,256.

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

Under the 2000 Plan and the 2010 Plan, all options expire if not exercised within ten years after the grant date. Historically, options generally provided for vesting over five years, with 20% vesting on the first anniversary of the grant date and five percent vesting every three months thereafter. During 2011, the Company began awarding options generally providing for vesting over five years, with 20% vesting on each of the first five anniversaries of the grant date. If the employee ceases to be employed by the Company for any reason before vested options have been exercised, the employee has 90 days to exercise options that have vested as of the date of such employee's termination or they are forfeited.

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

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The following table sets forth the significant assumptions used in the model during 2011 and 2012:

	Year Ended December 31, 2011	Nine Months Ended September 30, 2012
Future dividends	\$ -	\$ -
Risk-free interest rate	1.35%-2.58%	0.82%-1.25%
Expected volatility	32%-33%	32%
Expected life	6.0-6.5 years	6.5 years

The Company will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to the stock-based compensation on a prospective basis, and incorporating these factors into the Black-Scholes pricing model. Higher volatility and longer expected lives result in an increase to stock-based compensation expense determined at the date of grant. In addition, any changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period that the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the accompanying condensed consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the accompanying condensed consolidated financial statements. These expenses will affect the direct expenses, salaries and benefits and project development costs expenses. For the three months ended September 30, 2011 and 2012, the Company recorded stock-based compensation expense of approximately \$432,624 and \$853,866, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2011 and 2012, the Company recorded stock-based compensation expense of approximately \$2,027,200 and \$2,527,926, respectively, in connection with stock-based payment awards. The compensation expense is allocated between direct expenses, salaries and benefits and project development costs in the accompanying condensed consolidated statements of income based on the salaries and work assignments of the employees holding the options. As of September 30, 2012, there was approximately \$7,541,614 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 3.36 years.

7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On February 27, 2009, the Company received notice of a default termination from a customer for which the Company was performing construction services. The customer sought repurchase costs of approximately \$6.8 million. The dispute involved the customer's assertion of its understanding of the contractual scope of work involved and the completion date of the project. The Company disputed the customer's assertion as it believes that the basis of the default arose from a delay due to the discovery of and need for remediation of previously undiscovered hazardous materials not identified by the customer during contract negotiations. In February 2010, the Company filed a motion for summary judgment as to a portion of the complaint. In March 2010, the customer filed its response. In May 2012, the Company filed its affirmative claim for outstanding pre-termination amounts owed to it in an aggregate amount of approximately \$3.9 million. In August 2012, the Company and the

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AMERESCO, INC.

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

customer entered into a settlement agreement under which the customer agreed to change the termination for default to termination for convenience. Neither party paid the other party any amount and each party unconditionally waived any charges against the other.

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

Solar Tariff Contingency

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

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

Commitments as a Result of Acquisitions

Related to the Company's acquisition of Quantum in the third quarter of 2010 (see Note 3), certain individuals are eligible to receive additional compensation. Total potential additional compensation is up to \$1,150,000 and will be recognized as compensation expense as earned.

Related to the Company's acquisition of AEG in the third quarter of 2011 (see Note 3), the former stockholders of AEG, who are now employees of the Company, may be entitled to receive up to \$5,000,000 in additional consideration if AEG meets certain financial performance milestones.

Related to the Company's acquisition of FAME in the third quarter of 2012 (see Note 3), the former stockholders of FAME, who are now employees of the Company, may be entitled to receive up to an estimated \$865,000 in additional consideration if FAME meets certain financial performance milestones.

8. GEOGRAPHIC INFORMATION

The Company attributes revenue to customers based on the location of the customer. The composition of the Company's assets at December 31, 2011 and September 30, 2012 and revenues from sales to unaffiliated customers for the three and nine months ended September 30, 2011 and 2012 between those in the United States and those in other locations, is as follows:

	December 31, 2011	September 30, 2012
Assets:		
United States	\$576,695,791	\$611,550,045
Canada	68,321,537	69,962,338
Other	580,139	187,115
	\$645,597,467	\$681,699,498

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AMERESCO, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Revenue:				
United States	\$ 189,745,710	\$ 146,197,073	\$ 449,089,445	\$ 424,454,798
Canada	37,235,830	16,141,540	89,063,210	44,433,346
Other	822,028	1,567,592	1,552,625	5,691,335
	\$ 227,803,568	\$ 163,906,205	\$ 539,705,280	\$ 474,579,479

9. OTHER EXPENSES, NET

Other expenses, net, consisted of the following items for the three and nine months ended September 30, 2011 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Interest expense, net of interest income	\$(1,253,137)	\$(1,158,550)	\$(2,936,488)	\$(3,287,803)
Amortization of deferred financing fees	(106,776)	(95,667)	(312,431)	(367,145)
	\$(1,359,913)	\$(1,254,217)	\$(3,248,919)	\$(3,654,948)

10. FAIR VALUE MEASUREMENT

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

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

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

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

The following table presents the input level used to determine the fair values of the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2011 and September 30, 2012:

	Level	Fair Value as of	
		December 31, 2011	September 30, 2012
Liabilities:			
Interest rate swap instruments	2	6,711,961	\$ 7,152,044
Contingent consideration	3	2,734,464	\$ 2,766,994
Total liabilities		\$ 9,446,425	\$ 9,919,038

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

rate swaps to determine if a credit risk adjustment was required.

The fair value of the contingent consideration was estimated using probability assessments of expected future cash flows over the period in which the obligation is to be settled and applied a discount rate that appropriately captures a market

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

participant's view of the risk associated with the obligation. The fair value of the contingent consideration is adjusted based on an updated assessment of the probability of achievement of the performance metrics and the discount factor reflecting the passage of time.

The fair value of financial instruments is determined by reference to observable market data and other valuation techniques as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At September 30, 2012, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements which are considered to be level two inputs. There have been no transfers in or out of level two for the three month period ended September 30, 2012. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt are as follows:

	As of December 31, 2011		As of September 30, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	\$81,363,626	\$79,497,563	\$66,819,949	\$71,724,665

The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. The Company determined the fair value used in its annual impairment analysis with its own discounted cash flow analysis. The Company has determined the inputs used in such analysis as Level 3 inputs. The Company did not record any impairment charges on goodwill or other intangible assets as no significant events requiring non-financial assets and liabilities to be measured at fair value occurred for the year ended December 31, 2011 or for the nine months ended September 30, 2012.

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At December 31, 2011 and September 30, 2012, the following table presents information about the fair value amounts of the Company's derivative instruments:

	Liability Derivatives as of December 31, 2011		September 30, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other liabilities	\$6,711,961	Other liabilities	\$7,152,044

There were no derivatives not designated as hedging instruments for the three months ended September 30, 2011 and 2012.

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

	As of September 30, 2012	
	Gain Recognized in Accumulated Other Comprehensive Income	Loss Reclassified from Accumulated Other Comprehensive Income
Derivatives Designated as Hedging Instruments:		
Interest rate swap contracts	\$297,950	\$(1,473,192)

12. BUSINESS SEGMENT INFORMATION

The Company reports four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. The other U.S. regions segment is an aggregation of four regions: northeast U.S., southeast U.S., southwest U.S. and northwest U.S. These regions have similar economic characteristics — in particular, expected and actual gross profit margins. In addition, they sell products and services of a similar nature, serve similar types of customers and use similar methods to distribute their products and services. Accordingly, these four regions meet the aggregation criteria set forth in ASC 280, Segment Reporting. The "all other" category includes activities, such as certain O&M and sales of renewable energy and certain other renewable energy products, that are managed centrally at

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AMERESCO, INC.

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

the Company's corporate headquarters. It also includes all amortization of intangible assets and all corporate operating expenses — salaries and benefits, project development costs, and general, administrative and other — not specifically allocated to the segments. The Company does not allocate any indirect expenses to the segments. For the three months ended September 30, 2011 and 2012, unallocated corporate expenses were \$10,259,457 and \$11,244,873, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2011 and 2012, was \$194,499 and \$6,370,389, respectively. For the nine months ended September 30, 2011 and 2012, unallocated corporate expenses were \$28,636,642 and \$33,899,622, respectively. Income before taxes and unallocated corporate expenses for all other for the nine months ended September 30, 2011 and 2012, was \$7,564,040 and \$15,261,663, respectively. The accounting policies are the same as those described in the summary of significant accounting policies (see Note 2).

The Company's business segments had the following operational results for the three months ended September 30, 2012 and 2011:

Ameresco, Inc. and Subsidiaries

Segment Reporting

Three Months Ending September 30, 2012

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$16,193,420	\$23,954,729	\$67,335,319	\$16,141,540	\$40,281,197	\$163,906,205
Interest income	\$—	\$—	\$—	\$—	\$4,392	\$4,392
Interest expense	\$—	\$—	\$—	\$264,254	\$898,689	\$1,162,943
Depreciation and amortization of intangible assets	\$85,664	\$4,955	\$—	\$149,753	\$4,497,892	\$4,738,264
Income (loss) before taxes	\$2,319,011	\$2,822,955	\$9,040,364	\$147,273	\$(4,874,485)	\$9,455,118
Total assets	\$157,420,358	\$21,676,637	\$278,036,272	\$69,962,338	\$154,603,893	\$681,699,498
Capital expenditures	\$244,672	\$—	\$1,455,735	\$1,281,673	\$9,943,289	\$12,925,369

Ameresco, Inc. and Subsidiaries

Segment Reporting

Three Months Ending September 30, 2011

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$28,525,581	\$32,206,277	\$96,496,756	\$37,235,830	\$33,339,124	\$227,803,568
Interest income	\$—	\$—	\$—	\$2	\$90,650	\$90,652
Interest expense	\$—	\$—	\$—	\$172	\$1,343,612	\$1,343,784
Depreciation and amortization of intangible assets	\$47,112	\$(2,231)	\$—	\$416,104	\$3,561,966	\$4,022,951
Income (loss) before taxes	\$2,393,199	\$4,326,876	\$17,116,611	\$1,277,048	\$(10,064,958)	\$15,048,776
Total assets	\$250,568,886	\$20,482,833	\$309,664,125	\$73,491,855	\$134,225,914	\$788,433,613
Capital expenditures	\$95,389	\$3,469	\$1,226,426	\$833,666	\$15,541,724	\$17,700,674

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AMERESCO, INC.

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

The Company's business segments had the following operational results for the nine months ended September 30, 2012 and 2011:

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 2012

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$59,382,736	\$66,675,906	\$183,083,818	\$44,407,228	\$121,029,791	\$474,579,479
Interest income	\$—	\$—	\$—	\$2,754	\$10,715	\$13,469
Interest expense	\$—	\$—	\$—	\$503,979	\$2,797,294	\$3,301,273
Depreciation and amortization of intangible assets	\$220,721	\$14,996	\$—	\$350,534	\$13,860,516	\$14,446,767
Income (loss) before taxes	\$5,577,321	\$7,319,844	\$28,213,926	\$(3,735,331)	\$(18,637,959)	\$18,737,801
Total assets	\$157,420,358	\$21,676,637	\$278,036,272	\$69,962,338	\$154,603,893	\$681,699,498
Capital expenditures	\$945,626	\$—	\$2,654,946	\$3,587,951	\$23,978,291	\$31,166,814

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 2011

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$109,090,632	\$71,466,960	\$185,531,536	\$88,735,802	\$84,880,350	\$539,705,280
Interest income	\$—	\$—	\$—	\$5,028	\$268,857	\$273,885
Interest expense	\$—	\$—	\$—	\$2,097	\$3,208,271	\$3,210,368
Depreciation and amortization of intangible assets	\$160,624	\$13,590	\$—	\$727,148	\$8,653,924	\$9,555,286
Income (loss) before taxes	\$16,379,811	\$5,016,384	\$31,824,515	\$2,672,615	\$(21,072,602)	\$34,820,723
Total assets	\$250,568,886	\$20,482,833	\$309,664,125	\$73,491,855	\$134,225,914	\$788,433,613
Capital expenditures	\$160,441	\$17,939	\$2,493,579	\$2,749,326	\$28,806,914	\$34,228,199

13. LONG-TERM DEBT

7.25% Term Loan

On March 31, 2011, the Company entered into a term loan with a bank with an original principal amount of \$5,500,089. The note evidencing the loan bears interest at a rate of 7.25%. The principal amounts are due in quarterly installments ranging from \$114,635 to \$141,384, plus interest, with remaining principal balances and unpaid interest due March 31, 2021. In the event a payment is defaulted on, the payee has the option to accelerate payment terms and make due the remaining principal and accrued interest balance. At September 30, 2012, \$4,981,390 was outstanding under the term loan.

Senior Secured Credit Facility - Revolver and Term Loan

On June 30, 2011, the Company amended and restated the credit and security agreement and continues as the sole borrower under the agreement. The amended and restated facility extends and expands the Company's prior facility. The facility consists of a \$60,000,000 revolving credit facility and a \$40,000,000 term loan. The revolving credit facility may be increased up to an additional \$25,000,000 at the Company's option, if the lenders agree. The facility matures on June 30, 2016, and all remaining unpaid amounts outstanding under the facility will be due at that time. At September 30, 2012, \$32,857,143 was outstanding under the term loan and \$13,500,000 was outstanding under the revolving credit facility. Payments on the term loan are due in quarterly principal installments of \$1,428,571 together with accrued but unpaid interest, with all remaining

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AMERESCO, INC.

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

unpaid principal amounts due June 30, 2016. The obligations under the facility are guaranteed by certain of the Company's subsidiaries and are secured by a lien on all of the assets of the Company other than renewable energy projects that the Company owns and that are financed by others.

14. SUBSEQUENT EVENTS

On October 19, 2012, Ameresco Asset Holdings IV LLC ("Holdings IV"), a holding company for 18 renewable energy project companies and a wholly-owned subsidiary of Ameresco, Inc., entered into a credit and guaranty agreement with Union Bank, N.A. and CoBank ACB. Holdings IV's subsidiaries collectively own 22 renewable energy projects, 16 of which are currently operating and the remaining 6 of which are at various stages of construction. The credit and guaranty agreement provides for a \$47.2 million construction-to-term loan credit facility. At the closing, Holdings IV drew down construction loans for an aggregate of \$33.5 million with respect to 20 of the projects. A portion, \$13.5 million, of the proceeds of the initial draw down was used to pay down the revolving credit facility. Additional information about the credit facility is available in the Company's Current Report on Form 8-K dated October 19, 2012 and filed with the Securities and Exchange Commission on October 24, 2012.

On October 24, 2012, the Company acquired Seldera LLC, a privately held company offering intelligent sensing solutions for building energy efficiency that involve rapid reasoning and automation using sensor and online data. The Company has evaluated subsequent events through the date of this filing. Except as disclosed above, there were no other subsequent events to report.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2011 included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed on March 15, 2012 with the U.S. Securities and Exchange Commission, or SEC. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical fact, including statements that refer to projections regarding our future financial performance, our anticipated growth and trends in our businesses, our future capital needs and capital expenditures; our future market position and competitive changes in the marketplace for our services; our ability to integrate new technologies into our services; our ability to access credit or capital markets; our reliance on subcontractors; potential acquisitions or divestitures; the continued availability of key personnel; and other characterizations of future events or circumstances are forward-looking statements. These statements are often, but not exclusively, identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "target," "project," "predict" or "continue," and similar expressions or variations. These forward-looking statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Risks, uncertainties and factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011 and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to do so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

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

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

Our revenue has increased from \$20.9 million in 2001, our first full year of operations, to \$728.2 million in 2011. We achieved profitability in 2002, and we have been profitable every year since.

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

in Europe. Our acquisition of Southwestern Photovoltaic in 2007 significantly expanded our offering of solar energy products and services. Our acquisition of energy services company Quantum Engineering and Development, Inc., or Quantum, in 2010 expanded our geographical reach into the northwest U.S.

We made three acquisitions in 2011. Our acquisition of energy efficiency and demand side management consulting services provider Applied Energy Group, Inc., or AEG, expanded our service offering to utility customers. Our acquisition of

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APS Energy Services Company, Inc., which we renamed Ameresco Southwest, a company that provides a full range of integrated energy efficiency and renewable energy solutions, strengthened our geographical position in the southwest U.S. Our acquisition of the xChangePoint® and energy projects businesses from Energy and Power Solutions, Inc., which we operate as Ameresco Intelligent Systems, or AIS, expanded our service offerings to private sector commercial and industrial customers. AIS offers energy efficiency solutions to customers across North America encompassing the food and beverage, meat, dairy, paper, aerospace, oil and gas and REIT industries. In 2012, our acquisition in the third quarter of infrastructure asset management solutions provider FAME Facility Software Solutions Inc. expanded our offerings and our geographical position in western Canada.

Recent Developments

On October 19, 2012, Ameresco Asset Holdings IV LLC, or Holdings IV, a holding company for 18 renewable energy project companies and a wholly owned subsidiary of Ameresco, Inc., entered into a credit and guaranty agreement with Union Bank, N.A. and CoBank ACB. Holdings IV's subsidiaries collectively own 22 renewable energy projects, 16 of which are currently operating and the remaining 6 of which are at various stages of construction. The credit and guaranty agreement provides for a \$47.2 million construction-to-term loan credit facility. At the closing, Holdings IV drew down construction loans for an aggregate of \$33.5 million with respect to 20 of the projects. A portion, \$13.5 million, of the proceeds of the initial draw down was used to pay down the revolving credit facility. Additional information about the credit facility is available in the Company's Current Report on Form 8-K dated October 19, 2012 and filed with the Securities and Exchange Commission on October 24, 2012.

On October 24, 2012, the Company acquired Seldera LLC, a privately held company offering intelligent sensing solutions for building energy efficiency that involve rapid reasoning and automation using sensor and online data.

Energy Savings Performance and Energy Supply Contracts

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

Under our contracts, we typically do not take responsibility for a wide variety of factors outside our control and exclude or adjust for such factors in commitment calculations. These factors include variations in energy prices and utility rates, weather, facility occupancy schedules, the amount of energy-using equipment in a facility, and failure of the customer to operate or maintain the project properly. Typically, our performance commitments apply to the aggregate overall performance of a project rather than to individual energy efficiency measures. Therefore, to the extent an individual measure underperforms, it may be offset by other measures that over perform. In the event that an energy efficiency project does not perform according to the agreed-upon specifications, our agreements typically allow us to satisfy our obligation by adjusting or modifying the installed equipment, installing additional measures to provide substitute energy savings, or paying the customer for lost energy savings based on the assumed conditions specified in the agreement. Many of our equipment supply, local design, and installation subcontracts contain provisions that enable us to seek recourse against our vendors or subcontractors if there is a deficiency in our energy reduction commitment. From our inception to September 30, 2012, our total payments to customers and incurred equipment replacement and maintenance costs under our energy reduction commitments, after customer acceptance of

a project, have been less than \$100,000 in the aggregate. See “We may have liability to our customers under our ESPCs if our projects fail to deliver the energy use reductions to which we are committed under the contract” in Item 1A, Risk Factors in our Annual Report on Form 10-K.

Payments by the federal government for energy efficiency measures are based on the services provided and the products installed, but are limited to the savings derived from such measures, calculated in accordance with federal regulatory guidelines

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and the specific contract's terms. The savings are typically determined by comparing energy use and other costs before and after the installation of the energy efficiency measures, adjusted for changes that affect energy use and other costs but are not caused by the energy efficiency measures.

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

Project Financing

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

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

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

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

Effects of Seasonality

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

a result, our revenue and operating income in the third quarter are typically higher, and our revenue and operating income in the first quarter are typically lower, than in other quarters of the year. As a result of such fluctuations, we may occasionally experience declines in revenue or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

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

Backlog and Awarded Projects

Total construction backlog represents projects that are active within our ESPC sales cycle. Our sales cycle begins with the initial contact with the customer and ends, when successful, with a signed contract, also referred to as fully-contracted backlog. Historically, our sales cycle typically has averaged 12 to 36 months. Awarded backlog is created when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated from upgrading the customer's energy infrastructure. At this point, we also determine the sub-contractor, what equipment will be used, and assist in arranging for third party financing, as applicable. Historically, awarded projects typically have taken 6 to 12 months to result in a signed contract and thus convert to fully-contracted backlog. It may take longer, however, depending upon the size and complexity of the project. Further, at times in the past we have experienced periods during which the portion of the sales cycle for converting awarded project to signed contracts has lengthened; we have been experiencing lengthened conversion times, a trend we expect to continue into 2013. After the customer and Ameresco agree to the terms of the contract and the contract becomes executed, the project moves to fully-contracted backlog. The contracts reflected in our fully-contracted backlog typically have a construction period of 12 to 24 months; this is the period over which we expect to recognize revenue for customer contracts. Fully-contracted backlog begins converting into revenue generated from backlog on a percentage-of-completion basis once construction has commenced. See "We may not recognize all revenue from our backlog or receive all payments anticipated under awarded projects and customer contracts" in Item 1A, Risk Factors in our Annual Report on Form 10-K.

As of September 30, 2012, we had backlog of approximately \$318 million in future revenue under signed customer contracts for the installation or construction of projects, which we sometimes refer to as fully-contracted backlog; and we also had been awarded projects for which we do not yet have signed customer contracts with estimated total future revenue of an additional \$1.1 billion. As of September 30, 2011, we had fully-contracted backlog of approximately \$438 million in future revenue under signed customer contracts for the installation or construction of projects; and we also had been awarded projects for which we had not yet signed customer contracts with estimated total future revenue of an additional \$782 million.

Financial Operations Overview

Revenue

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

While in any particular quarter a single customer may account for more than ten percent of revenue, for the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, no one customer accounted for more than ten percent of our total revenue.

Direct Expenses and Gross Margin

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

equipment.

Direct expenses also include O&M costs for the small-scale renewable energy plants that we own, including the cost of fuel (if any) and depreciation charges.

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As a result of our acquisitions in 2011, we now have intangible assets related to customer contracts; these are amortized over a period of approximately one to five years from the respective date of acquisition. This amortization is recorded as a direct expense for energy efficiency. Amortization expense for the three and nine months ended September 30, 2012, related to customer contracts was \$0.4 million and \$2.0 million, respectively, and is included in energy efficiency expenses in the condensed consolidated statements of income.

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

Operating Expenses

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

Salaries and benefits. Salaries and benefits consist primarily of expenses for personnel not directly engaged in specific project or revenue generating activity. These expenses include the time of executive management, legal, finance, accounting, human resources, information technology and other staff not utilized in a particular project. We employ a comprehensive time card system which creates a contemporaneous record of the actual time by employees on project activity. We expect salaries and benefits to continue to increase on a year-over-year basis as we continue to incur additional costs related to operating as a publicly-traded company, including accounting, compliance and legal, as well as related to executing our growth plans.

Project development costs. Project development costs consist primarily of sales, engineering, legal, finance and third-party expenses directly related to the development of a specific customer opportunity. This also includes associated travel and marketing expenses. We intend to hire additional sales personnel and initiate additional marketing programs as we expand into new regions or complement existing development resources. Accordingly, we expect that our project development costs will continue to increase on a year-over-year basis, but will moderate as a percentage of revenue over time.

General, administrative and other expenses. These expenses consist primarily of rents and occupancy, professional services, insurance, unallocated travel expenses, telecommunications, office expenses and amortization of intangible assets not related to customer contracts. Professional services consist principally of recruiting costs, external legal, audit, tax and other consulting services. We expect general, administrative and other expenses to continue to increase on a year-over-year basis as we continue to incur additional costs related to operating as a publicly-traded company, including increased audit and legal fees, costs of compliance with securities, corporate governance and other regulations, investor relations expenses and higher insurance premiums, particularly those related to director and officer insurance, as well as related to executing our growth plans. For the nine months ended September 30, 2012, we recorded \$0.8 million relating to a gain on sale of an asset. For the three months ended September 30, 2011 and 2012, the Company recorded amortization expense of \$0.5 million and \$0.7 million, respectively, related to customer relationships, non-compete agreements, technology and trade names. For the nine months ended September 30, 2011 and 2012, the Company recorded amortization expense of \$0.5 million and \$2.1 million, respectively, related to customer relationships, non-compete agreements, technology and trade names. Amortization expense related to these intangible assets is included in general, administrative and other expenses in the condensed consolidated statements of income.

Other Expenses, Net

Other expenses, net consists primarily of interest income on cash balances, interest expense on borrowings and amortization of deferred financing costs. Interest expense will vary periodically depending on the amounts drawn on our revolving senior secured credit facility and the prevailing short-term interest rates.

Provision for Income Taxes

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

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires management to make estimates and

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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 under different assumptions or conditions.

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

Revenue Recognition

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

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

Often, we will sell a combination of these services and products in a bundled arrangement. We divide bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative selling price. The relative selling price is determined using vendor specific objective evidence, third party evidence or management's best estimate of selling price.

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

When the estimate on a contract indicates a loss, or claims against costs incurred reduce the likelihood of recoverability of such costs, our policy is to record the entire expected loss immediately, regardless of the percentage of completion.

Deferred revenue represents circumstances where (i) there has been a receipt of cash from the customer for work or services that have yet to be performed, (ii) receipt of cash where the product or service may not have been accepted by the customer or (iii) when all other revenue recognition criteria have been met, but an estimate of the final total cost cannot be determined. Deferred revenue will vary depending on the timing and amount of cash receipts from customers and can vary significantly depending on specific contractual terms. As a result, deferred revenue is likely to fluctuate from period to period. Unbilled revenue, presented as costs and estimated earnings in excess of billings, represent amounts earned and billable that were not invoiced at the end of the fiscal period.

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

We recognize revenue from O&M contracts and consulting services as the related services are performed.

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

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Project Assets

We capitalize interest costs relating to construction financing during the period of construction. The interest capitalized is included in the total cost of the project at completion. The amount of interest capitalized for the three and nine months ended September 30, 2012 was \$0.3 million and \$0.7 million. No interest was capitalized for the three and nine months ended September 30, 2011.

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

We evaluate our long-lived assets for impairment as events or changes in circumstances indicate the carrying value of these assets may not be fully recoverable. We evaluate recoverability of long-lived assets to be held and used by estimating the undiscounted future cash flows before interest associated with the expected uses and eventual disposition of those assets. When these comparisons indicate that the carrying value of those assets is greater than the undiscounted cash flows, we recognize an impairment loss for the amount that the carrying value exceeds the fair value.

Derivative Financial Instruments

We account for our interest rate swaps as derivative financial instruments in accordance with the related guidance. Under this guidance, derivatives are carried on our consolidated balance sheet at fair value. The fair value of our interest rate swaps is determined based on observable market data in combination with expected cash flows for each instrument.

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

We are exposed to interest rate risk through our borrowing activities. A portion of our project financing includes three projects that utilize a variable rate swap instrument. Prior to December 31, 2009, we entered into two 15-year interest rate swap contracts under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to, in turn, receive an amount equal to a specified variable rate of interest times the same notional principal amount. During the year ended December 31, 2010, we entered into a 14-year interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. We entered into the interest rate swap contracts as an economic hedge. In July 2011, we entered into a five-year interest rate swap contract under which we agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The 2011 swap covers an initial notional amount of approximately \$38.6 million variable rate note at a fixed interest rate of 1.965% and expires in June 2016.

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

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

The interest rate swaps that we entered into during 2010 and 2011 qualify, and have been designated, as cash flow hedges.

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

Business Segments

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

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

Results of Operations**Three Months Ended September 30, 2011 and 2012**

The following table sets forth certain financial data from the condensed consolidated statements of income, that data expressed as a percentage of revenue and percentage changes in that data for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,					% change ((b-a)/a)
	2011 (a)	% of Revenue	2012 (b)	% of Revenue		
Revenue:						
Energy efficiency revenue	\$188,718	82.8	% \$108,419	66.1	%	(42.5)%
Renewable energy revenue	39,085	17.2	% 55,487	33.9	%	42.0%
	227,803	100.0	% 163,906	100.0	%	(28.0)%
Direct expenses:						
Energy efficiency expenses	155,890		87,899			(43.6)%
Renewable energy expenses	32,058		41,205			28.5%
	187,948	82.5	% 129,104	78.8	%	(31.3)%
Gross profit	39,855	17.5	% 34,802	21.2	%	(12.7)%
Total operating expenses	23,446	10.3	% 24,093	14.7	%	2.8%
Operating income	16,409	7.2	% 10,709	6.5	%	(34.7)%
Other expenses, net	(1,360)	(0.6)	)% (1,254)	(0.8)	)%	(7.8)%
Income before provision for income taxes	15,049	6.6	% 9,455	5.8	%	(37.2)%
Income tax provision	(2,690)	(1.2))% (2,684)	(1.6))%	(0.2)%
Net income	\$12,359	5.4	% \$6,771	4.1	%	(45.2)%

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Revenue

The following table sets forth a comparison of our revenue by mix for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,			
	2011 (a)	2012 (b)	\$ change (b-a)	% change ((b-a)/a)
Revenue:				
Energy efficiency revenue	\$188,718	\$108,419	\$(80,299)	(42.5)%
Renewable energy revenue	39,085	55,487	16,402	42.0 %
	\$227,803	\$163,906	\$(63,897)	(28.0)%

Total revenue. We derive a majority of our revenue from energy efficiency products and services, which accounted for approximately 82.8% and 66.1% of total revenue for the third quarter of 2011 and 2012, respectively. Total revenue was down from the third quarter of 2011 to the third quarter of 2012, as our Canada, U.S. federal, central U.S., and other U.S. segments experienced a lengthening of conversion times from awarded projects to signed contracts. We believe this was due to uncertainty regarding the political environments in which our customers operate, the pending expiration of tax cuts combined with spending cuts provided for in the Budget Control Act of 2011, and perception toward debt, which have combined to cause customers to behave more cautiously. These decreases were partially offset by incremental revenue attributable to the acquisition made in the fourth quarter of 2011 and organic increases in revenue from portions of our other U.S. regions segment.

Energy efficiency revenue. Energy efficiency revenue decreased by \$80.3 million, or 42.5%, in the third quarter of 2012 compared to the third quarter of 2011. Declines in our Canada, U.S. federal, central U.S. region and all other U.S. regions segments of \$22.8 million, \$5.7 million, \$8.8 million, and \$42.3 million, respectively, during the third quarter were driven by a lengthening of conversion times from awarded projects to signed contracts. These declines were partially offset by an increase in our all other segment, including \$2.0 million in incremental revenue attributable to our acquisition of AIS in the fourth quarter of 2011 as well as organic growth in our other offerings.

Renewable energy revenue. Renewable energy revenue increased by 42.0%, or \$16.4 million, from the third quarter of 2011 to the third quarter of 2012. Renewable energy revenue from our other U.S. regions segment increased by \$18.4 million, of which \$5.0 million was attributable to our acquisitions made in the second half of 2011; renewable energy revenue from our Canada segment increased by \$1.8 million. Other segments contributed \$3.0 million in increased renewable energy revenue. These were partially offset by a decrease in renewable energy revenue in our U.S. federal segment of \$6.6 million, primarily due to a decline in revenue from the Savannah River project, which was completed in the fourth quarter of 2011 and has transitioned to its O&M phase.

Revenue from customers outside the United States, principally Canada, was \$17.7 million in the third quarter of 2012, compared with \$38.1 million million in the third quarter of 2011.

Business Segment Revenue

The following table sets forth a comparison of our business segment revenue for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,			
	2011 (a)	2012 (b)	\$ change (b-a)	% change ((b-a)/a)
U.S. Federal	\$28,525	\$16,193	\$(12,332)	(43.2)%
Central U.S. Region	32,206	23,955	(8,251)	(25.6)%
Other U.S. Regions	96,497	67,335	(29,162)	(30.2)%
Canada	37,236	16,142	(21,094)	(56.6)%
All Other	33,339	40,281	6,942	20.8 %
Total	\$227,803	\$163,906	\$(63,897)	(28.0)%

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Total revenue for the U.S. federal segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$12.3 million, or 43.2%, to \$16.2 million primarily due to a \$5.0 million decline in revenue from the Savannah River project, which was completed in the fourth quarter of 2011 and transitioned to its O&M phase, and the effects of fewer projects entering the construction phase during 2011 and the first half of 2012. We experienced delays during 2011 and continuing through the first half of 2012 in converting awarded projects to signed contracts, arising, we believe, from implementation and adoption of new enhanced competition rules for federal ESPCs released in the second quarter of 2011, and more recently, from additional diligence steps in response to pressure from respective committees responsible for approving energy efficiency projects.

Total revenue for the central U.S. region segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$8.3 million, or 25.6%, to \$24.0 million primarily due to timing of awarded conversion activity which resulted in fewer newly signed contracts during the second quarter to replace installation activity in the third quarter. We believe this decrease reflects an unusual seasonal trend that we do not expect to continue.

Total revenue for the other U.S. regions segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$29.2 million, or 30.2%, to \$67.3 million, primarily due to most regions experiencing a lengthening of conversion times from awarded projects to signed contracts.

Total revenue for the Canada segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$21.1 million, or 56.6%, to \$16.1 million primarily due to the effects of fewer projects entering the construction phase and delays in converting both proposals to awarded projects and awarded projects to signed contracts arising from what we believe was continued government and municipal customer uncertainty related to the consequences of election outcomes.

Total revenue not allocated to segments and presented as all other increased from the third quarter of 2011 to the third quarter of 2012 by \$6.9 million, or 20.8%, to \$40.3 million due primarily to \$2.0 million in incremental revenue from our acquisition of AIS, as well as increases in revenue from small scale infrastructure and integrated-PV of \$1.1 million.

Direct Expenses and Gross Profit

The following table sets forth a comparison of our direct expenses and gross profit for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,			
	2011 (a)	2012 (b)	\$ change (b-a)	% change ((b-a)/a)
Revenue:				
Energy efficiency revenue	\$188,718	\$108,419	\$(80,299)	(42.5)%
Renewable energy revenue	39,085	55,487	16,402	42.0%
	227,803	163,906	(63,897)	(28.0)%
Direct expenses:				
Energy efficiency expenses	155,890	87,899	(67,991)	(43.6)%
Renewable energy expenses	32,058	41,205	9,147	28.5%
	187,948	129,104	(58,844)	(31.3)%
Gross profit:	\$39,855	\$34,802	\$(5,053)	(12.7)%
Energy efficiency gross margin	17.4	% 18.9	%	1.5%
Renewable energy gross margin	18.0	% 25.7	%	7.7%
Gross profit %	17.5	% 21.2	%	3.7%

Total direct expenses. The majority of our expenses are incurred in connection with energy efficiency projects for which expenses represented approximately 82.6% and 81.1% of corresponding revenue for the three months ended September 30, 2011 and 2012, respectively. Total direct expenses decreased by \$58.8 million, or 31.3%, from the third quarter of 2011 to the third quarter of 2012, consistent with the decline in revenue.

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Energy efficiency. Energy efficiency gross margin increased from 17.4% in the third quarter of 2011 to 18.9% in the third quarter of 2012. The increase was driven by higher margin projects across a number of U.S. regions, project closeouts, which contribute revenue for which all related direct expenses previously have been incurred, and contributions from our higher gross margin offerings attributable to our acquisitions of AEG and AIS in the second half of 2011.

Renewable energy. Renewable energy gross margin increased from 18.0% in the third quarter of 2011 to 25.7% in the third quarter of 2012. The gross margin in the third quarter of 2012 increased primarily due to Savannah River O&M, small scale infrastructure and integrated-PV.

Operating Expenses

The following table sets forth a comparison of our operating expenses as a percentage of revenue for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,					
	2011 (a)	% of Revenue	2012 (b)	% of Revenue	\$ change (b-a)	% change ((b-a)/a)
Revenue	\$227,803		\$163,906			
Operating expenses:						
Salaries and benefits	\$10,985	4.8 %	\$12,441	7.6 %	\$1,456	13.3 %
Project development costs	5,175	2.3 %	4,289	2.6 %	(886)	(17.1)%
General, administrative and other	7,286	3.2 %	7,363	4.5 %	77	1.1 %
	\$23,446	10.3 %	\$24,093	14.7 %	\$647	2.8 %

Salaries and benefits. Salaries and benefits increased by \$1.5 million, or 13.3%, from the third quarter of 2011 to the third quarter of 2012. The increase reflects our implementation of a number of strategic initiatives in 2011 to improve our competitive position, including adding key personnel, opening six new offices and completing three acquisitions.

Project development costs. Project development costs decreased by \$0.9 million, or 17.1%, from the third quarter of 2011 to the third quarter of 2012. The decrease was due to an increase in awarded projects, which reflects our efforts to increase proposal activity and convert awarded projects to fully contracted backlog, thereby allowing us to capitalize more of these costs, continuing a trend also exhibited in the first half of 2012.

General, administrative and other. General, administrative and other expenses increased slightly by \$0.1 million, or 1.1%, from the third quarter of 2011 to the third quarter of 2012.

Other Expenses, Net

The following table shows the activity in other expenses, net for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,	
	2011	2012
Interest expense, net of interest income	\$(1,253)	\$(1,158)
Amortization of deferred financing costs	(107)	(96)
	\$(1,360)	\$(1,254)

Other expenses, net, in the third quarter of 2012 decreased slightly by \$0.1 million from the third quarter of 2011.

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Income Before Taxes

The following table sets forth a comparison of our income before taxes for the three months ended September 30, 2011 and 2012:

(in \$'000s)	Three Months Ended September 30,			
	2011 (a)	2012 (b)	\$ change (b-a)	% change ((b-a)/a)
U.S. Federal	\$2,393	\$2,319	\$(74)	(3.1)%
Central U.S. Region	4,327	2,823	(1,504)	(34.8)%
Other U.S. Regions	17,117	9,040	(8,077)	(47.2)%
Canada	1,277	147	(1,130)	(88.5)%
All Other	(10,065)	(4,874)	5,191	51.6%
Total	\$15,049	\$9,455	\$(5,594)	(37.2)%

Income before taxes decreased from the third quarter of 2011 to the third quarter of 2012 by \$5.6 million, or 37.2%, due primarily to the decrease in revenue for the reasons described above.

Business Segment Income Before Taxes

Income before taxes for the U.S. federal segment decreased slightly from the third quarter of 2011 to the third quarter of 2012 by \$0.1 million, or 3.1%, to \$2.3 million. The decrease was primarily due to lower revenue as described above, partially offset by higher margin contribution primarily from O&M at the Savannah River site.

Income before taxes for the central U.S. region segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$1.5 million, or 34.8%, to \$2.8 million. The decrease was due primarily to the decrease in revenue described above, combined with higher operating expenses attributable to higher head count to support growth.

Income before taxes for the other U.S. regions segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$8.1 million, or 47.2%, to \$9.0 million due primarily to the decrease in revenue described above combined with higher operating expenses.

Income before taxes for the Canada segment decreased from the third quarter of 2011 to the third quarter of 2012 by \$1.1 million, or 88.5%, to \$0.1 million. The decrease was primarily due to the decline in revenue described above.

The loss before taxes not allocated to segments and presented as all other, decreased from the third quarter of 2011 to the third quarter of 2012 by \$5.2 million, or 51.6%, to \$4.9 million, primarily due to the increase in revenue described above, partially offset by increases in unallocated corporate expenses. The changes in the expense allocated to all other from the third quarter of 2011 to the third quarter of 2012 were consistent with the overall change in consolidated expenses discussed above.

Provision for Income Taxes

The provision for income taxes remained at \$2.7 million in the third quarter of 2012, the same as for the third quarter of 2011. The third quarter effective tax rate was 28.4% in 2012, compared to 17.9% in 2011. The effective tax rate was lower during the third quarter of 2011 because we recorded a tax benefit specific to that period. Additionally, we recorded an unfavorable tax adjustment during the third quarter of 2012. Both of these adjustments were required to be treated as discrete items during the quarter in which they occurred. We expect that the annual 2012 tax rate will be slightly higher than the tax rate for 2011 which was approximately 24%. The principal reasons for the difference between the statutory rate and the effective rate were the effects of deductions permitted under Section 179D of the Internal Revenue Code, which relate to the installation of certain energy efficiency equipment in federal, state, provincial and local government-owned buildings, as well as tax credits to which we are entitled from plants that we own.

Net Income

Net income decreased in the third quarter of 2012 by \$5.6 million, or 45.2%, to \$6.8 million, compared to \$12.4 million in the third quarter of 2011 due to lower pre-tax income as explained above and a higher effective tax rate.

Earnings per share in

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the third quarter of 2012 was \$0.15 per basic share, representing a decrease of \$0.14, or 48.3%, and \$0.15 per diluted share, representing a decrease of \$0.12, or 44.4%.

Nine Months Ended September 30, 2011 and 2012

The following table sets forth certain financial data from the condensed consolidated statements of income, that data expressed as a percentage of revenue and percentage changes in that data for the nine months ended September 30, 2012 compared with the same period in 2011:

(in \$'000s)	Nine Months Ended September 30,				
	2011 (a)	% of Revenue	2012 (b)	% of Revenue	% change ((b-a)/a)
Revenue:					
Energy efficiency revenue	\$418,698	77.6 %	\$341,621	72.0 %	(18.4) %
Renewable energy revenue	121,007	22.4 %	132,959	28.0 %	9.9 %
	539,705	100.0 %	474,580	100.0 %	(12.1) %
Direct expenses:					
Energy efficiency expenses	344,499		275,392		(20.1) %
Renewable energy expenses	95,216		104,004		9.2 %
	439,715	81.5 %	379,396	79.9 %	(13.7) %
Gross profit	99,990	18.5 %	95,184	20.1 %	(4.8) %
Total operating expenses	61,920	11.5 %	72,791	15.3 %	17.6 %
Operating income	38,070	7.0 %	22,393	4.7 %	(41.2) %
Other expenses, net	(3,249)	(0.6) %	(3,655)	(0.8) %	(12.5) %
Income before provision for income taxes	34,821	6.4 %	18,738	3.9 %	(46.2) %
Income tax provision	(8,342)	(1.5) %	(5,293)	(1.1) %	(36.5) %
Net income	\$26,479	4.9 %	\$13,445	2.8 %	(49.2) %

Revenue

The following table sets forth a comparison of our revenue by mix for the nine months ended September 30, 2011 and 2012:

(in \$'000s)	Nine Months Ended September 30,			
	2011 (a)	2012 (b)	\$ change (b-a)	% change ((b-a)/a)
Revenue:				
Energy efficiency revenue	\$418,698	\$341,621	\$(77,077)	(18.4) %
Renewable energy revenue	121,007	132,959	11,952	9.9 %
	\$539,705	\$474,580	\$(65,125)	(12.1) %

Total revenue. We derive our revenue primarily from energy efficiency products and services, which accounted for approximately 77.6% and 72.0% of total revenue in the first nine months of 2011 and 2012, respectively. Total revenue decreased by \$65.1 million, or 12.1%, in the first nine months of 2012 compared to the first nine months of 2011 due to lower energy efficiency revenue partially offset by an increase in renewable energy revenue.

Energy efficiency revenue. Energy efficiency revenue decreased by \$77.1 million, or 18.4%, from the first nine months of 2011 to the first nine months of 2012. Energy efficiency revenue decreased in our U.S. federal, Canada, central U.S. region, and other U.S. regions segments, by \$15.4 million, \$47.5 million, \$4.6 million, and \$41.9 million, respectively. These decreases were partially offset by \$32.2 million in incremental revenue attributable to our three acquisitions completed in the second half of 2011.

Renewable energy revenue. Renewable energy revenue increased by \$12.0 million, or 9.9%, in the first nine months of 2012 compared to the first nine months of 2011. The improvement in renewable energy revenue in the third quarter of 2012

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described above, which continued a positive trend from the second quarter, was only partially offset by the decrease in the first quarter of 2012, which was primarily due to a decline in revenue from the Savannah River project, which was completed in the fourth quarter of 2011 and had transitioned to its O&M phase.

Revenue from customers outside the United States, principally Canada, was \$50.1 million in the first nine months of 2012, compared with \$90.6 million in the same period of 2011.

Business Segment Revenue

The following table sets forth a comparison of our business segment revenue for the nine months ended September 30, 2011 and 2012:

	Nine Months Ended September 30,			
	2011	2012	\$ change	% change
(in \$'000s)	(a)	(b)	(b-a)	((b-a)/a)
U.S. Federal	\$109,091	\$59,383	\$(49,708)	(45.6)%
Central U.S. Region	71,467	66,676	(4,791)	(6.7)%
Other U.S. Regions	185,531	183,084	(2,447)	(1.3)%
Canada	88,736	44,407	(44,329)	(50.0)%
All Other	84,880	121,030	36,150	42.6%
Total	\$539,705	\$474,580	\$(65,125)	(12.1)%

Total revenue for the U.S. federal segment decreased from the first nine months of 2011 to the first nine months of 2012 by \$49.7 million, or 45.6%, to \$59.4 million primarily for the reasons described for the third quarter of 2012 above, which includes a decline of \$30.1 million in revenue from the Savannah River project, which was completed in the fourth quarter of 2011 and transitioned to its O&M phase.

Total revenue for the central U.S. region segment decreased from the first nine months of 2011 to the first nine months of 2012 by \$4.8 million, or 6.7%, to \$66.7 million primarily for the reasons described for the third quarter of 2012 above, which, together with the lagged effect of a lower volume of awarded projects during 2011 on first quarter 2012 revenue, more than offset the increase we experienced in the second quarter. We expect the reasons for the second quarter improvement, attributable to the increased installation activity as a result of an improved environment in the region for converting awarded projects to signed contracts that we experienced beginning in the first quarter of 2012, to return in the fourth quarter.

Total revenue for the other U.S. regions segment decreased from the first nine months of 2011 to the first nine months of 2012 by \$2.4 million, or 1.3%, to \$183.1 million primarily due to most regions within the segment experiencing a lengthening of conversion times from awarded projects to signed contracts in the third quarter as described above, partially offset by an increase in the size and number of projects under construction in the first and second quarters, including \$28.4 million in incremental revenue attributable to our acquisition of Ameresco Southwest in 2011.

Total revenue for the Canada segment decreased from the first nine months of 2011 to the first nine months of 2012 by \$44.3 million, or 50.0%, to \$44.4 million primarily for the reasons described for the third quarter of 2012 above.

Total revenue not allocated to segments and presented as all other, increased from the first nine months of 2011 to the first nine months of 2012 by \$36.2 million, or 42.6%, to \$121.0 million, primarily due to incremental revenue from our acquisitions of AEG and AIS, which contributed \$14.2 million, as well as to increases in small scale infrastructure, O&M, and integrated-PV.

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Direct Expenses and Gross Profit

The following table sets forth a comparison of our direct expenses and gross profit for the nine months ended September 30, 2011 and 2012:

(in \$'000s)	Nine Months Ended September 30,				% change ((b-a)/a)
	2011 (a)	2012 (b)	\$ change (b-a)		
Revenue:					
Energy efficiency revenue	\$418,698	\$341,621	\$(77,077)	(18.4))%
Renewable energy revenue	121,007	132,959	11,952	9.9	%
	539,705	474,580	(65,125)	(12.1))%
Direct expenses:					
Energy efficiency expenses	344,499	275,392	(69,107)	(20.1))%
Renewable energy expenses	95,216	104,004	8,788	9.2	%
	439,715	379,396	(60,319)	(13.7))%
Gross profit:	\$99,990	\$95,184	\$(4,806)	(4.8))%
Energy efficiency gross margin	17.7	% 19.4	%	1.7	%
Renewable energy gross margin	21.3	% 21.8	%	0.5	%
Gross profit %	18.5	% 20.1	%	1.6	%

Total direct expenses. The majority of our expenses are incurred in connection with energy efficiency projects for which expenses represented approximately 82.3% and 80.6% of corresponding revenue for the nine months ended September 30, 2011 and 2012, respectively. Total direct expenses decreased by \$60.3 million, or 13.7%, in the first nine months of 2012 compared to the same period in 2011 consistent with the decline in revenue.

Energy efficiency. Energy efficiency gross margin increased from 17.7% in the first nine months of 2011 to 19.4% in the first nine months of 2012 primarily for the reasons described above for the third quarter of 2012, as well as additional project closeouts during the first quarter of 2012.

Renewable energy. Renewable energy gross margin increased from 21.3% in the first nine months of 2011 to 21.8% in the first nine months of 2012 primarily for the reasons described above for the third quarter of 2012, partially offset by downward pressure during the first half of 2012 as Savannah River was transitioning from implementation to O&M.

Operating Expenses

The following table sets forth a comparison of our operating expenses and operating expenses as a percentage of revenue for the nine months ended September 30, 2011 and 2012:

(in \$'000s)	Nine Months Ended September 30,						% change ((b-a)/a)
	2011 (a)	% of Revenue	2012 (b)	% of Revenue	\$ change (b-a)		
Revenue	\$539,705		\$474,580				
Operating expenses:							
Salaries and benefits	\$29,232	5.4	% \$38,369	8.1	% \$9,137	31.3	%
Project development costs	14,840	2.8	% 12,336	2.6	%(2,504)	(16.9))%
General, administrative and other	17,848	3.3	% 22,086	4.6	% 4,238	23.7	%
	\$61,920	11.5	% \$72,791	15.3	% \$10,871	17.6	%

Salaries and benefits. Salaries and benefits increased by \$9.1 million, or 31.3%, from the first nine months of 2011 to the first nine months of 2012 primarily for the reasons described for the third quarter of 2012 above. In addition, we increased employee resources devoted to early stage business development activities to drive an increase in proposal volume; this

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increased salaries and benefits as the business opportunities were too early stage to qualify for classification as project development costs or capitalization as project assets.

Project development costs. Project development costs decreased by \$2.5 million, or 16.9%, from the first nine months of 2011 to the first nine months of 2012 primarily for the reasons described for the third quarter of 2012 above.

General, administrative and other. General, administrative and other expenses increased by \$4.2 million, or 23.7%, from the first nine months of 2011 to the first nine months of 2012. We experienced a significant increase in general, administrative and other expenses related to public company expenses, such as Sarbanes Oxley compliance, auditing, general compliance, insurance costs, and acquisition-related expenses, including \$2.1 million in amortization of intangible assets attributable to our acquisitions of AEG, Ameresco Southwest, AIS, and FAME.

Other Expenses, Net

The following table shows the activity in other expense, net from the first nine months of 2011 compared to the first nine months of 2012:

(in \$'000s)	Nine Months Ended September 30,	
	2011	2012
Interest expense, net of interest income	\$(2,936)	\$(3,288)
Amortization of deferred financing costs	(313)	(367)
	\$(3,249)	\$(3,655)

Other expenses, net increased slightly by \$0.4 million in the first nine months of 2012 as compared to first nine months of 2011 primarily due to higher average balances on our outstanding borrowings, primarily the term loan portion of our senior secured credit facility, resulting in higher interest expense.

Income Before Taxes

The following table sets forth a comparison of our income before taxes for the nine months ended September 30, 2011 and 2012:

(in \$'000s)	Nine Months Ended September 30,			
	2011	2012	\$ change	% change
	(a)	(b)	(b-a)	((b-a)/a)
U.S. Federal	\$16,380	\$5,577	\$(10,803)	(66.0)%
Central U.S. Region	5,016	7,320	2,304	45.9%
Other U.S. Regions	31,825	28,214	(3,611)	(11.3)%
Canada	2,673	(3,735)	(6,408)	(239.7)%
All Other	(21,073)	(18,638)	2,435	11.6%
Total	\$34,821	\$18,738	\$(16,083)	(46.2)%

Income before taxes decreased from the first nine months of 2011 to the first nine months of 2012 by \$16.1 million, or 46.2%, due primarily to the decrease in revenue and the increases in operating expenses, both as described above.

Business Segment Income Before Taxes

Income before taxes for the U.S. federal segment decreased from the first nine months of 2011 to the first nine months of 2012 by \$10.8 million, or 66.0%, to \$5.6 million. The decrease was primarily due to the lower volume of installation activity during the first nine months of 2012.

Income before taxes for the central U.S. region segment increased from the first nine months of 2011 to the first nine months of 2012 by \$2.3 million, or 45.9%, to \$7.3 million. The increase was due primarily to improved operating leverage in the second quarter of 2012, reflecting reduced operating expenses attributable to cost control initiatives during 2011, combined with the increase in revenue in the second quarter of 2012.

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Income before taxes for the other U.S. regions segment decreased from the first nine months of 2011 to the first nine months of 2012 by 11.3%, or \$3.6 million, to \$28.2 million primarily due to decreased revenue as described above and higher operating expenses.

Income before taxes for the Canada segment decreased from the first nine months of 2011 to a loss in the first nine months of 2012 by \$6.4 million, or 239.7%, to \$3.7 million due to decreased revenue for the reasons described above, a greater portion of lower gross margin projects in its revenue mix and to higher operating expenses.

The loss before taxes not allocated to segments and presented as all other, decreased from the first nine months of 2011 to the first nine months of 2012 by \$2.4 million, or 11.6%, to \$18.6 million primarily due to the increase in revenue discussed above, partially offset by increases in unallocated corporate expenses. The changes in the expense allocated to all other from the first nine months of 2011 to the first nine months of 2012 were consistent with the overall change in consolidated expenses discussed above.

Provision for Income Taxes

The provision for income taxes decreased by \$3.0 million to \$5.3 million in the first nine months of 2012 from \$8.3 million in the first nine months of 2011. The effective tax rate increased to 28.2% for the first nine months of 2012 from 24.0% in the first nine months of 2011. The effective tax rate was lower during the third quarter of 2011 because we recorded a tax benefit specific to that period. Additionally, we recorded an unfavorable tax adjustment during the third quarter of 2012. Both of these adjustments were required to be treated as discrete items during the quarter in which they occurred. We expect that the annual 2012 tax rate will be slightly higher than the tax rate for 2011 which was approximately 24%. The principal reasons for the difference between the statutory rate and the effective rate were the effects of deductions permitted under Section 179D of the Internal Revenue Code, which relate to the installation of certain energy efficiency equipment in federal, state, provincial and local government-owned buildings, as well as tax credits to which we are entitled from plants that we own.

Net Income

Net income decreased by \$13.0 million, or 49.2%, in the first nine months of 2012 to \$13.4 million, compared to \$26.5 million in the first nine months of 2011, due to lower pre-tax income. Earnings per share in the first nine months of 2012 was \$0.30 per basic share, representing a decrease of \$0.33, or 52.4%, and \$0.29 per diluted share, representing a decrease of \$0.29, or 50.0%. The weighted-average number of basic and diluted shares increased by 5.2% and 1.4%, respectively, for the same reasons as for the third quarter of 2012 discussed above.

Liquidity and Capital Resources

Sources of liquidity. Since inception, we have funded operations primarily through cash flow from operations 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 2013 and thereafter.

Three Months Ended September 30, 2011 and 2012

Cash flows from operating activities. Operating activities provided \$3.1 million of net cash during the three months ended September 30, 2012. During that period, we had net income of \$6.8 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$4.0 million.

Restricted cash draws (net of federal ESPC financing), inventory, prepaid expenses and other current assets, other liabilities and income taxes payable provided \$11.7 million. These were offset by net decreases in accounts receivable including retainage, total billings and costs in excess of estimated earnings, project development costs, and accounts payable, accrued expenses and other current liabilities, which used \$19.7 million in cash.

Operating activities provided \$10.3 million of net cash during the three months ended September 30, 2011. During that period, we had net income of \$12.4 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$6.8 million. Federal ESPC financing (net of restricted cash draws), inventory, total billings and costs in excess of estimated earnings, accounts payable and income taxes payable provided \$46.1 million. These were offset by net decreases in accounts receivable including retainage, prepaid expenses and other current assets, project development costs, other assets and other liabilities, which together used

\$54.9 million in cash.

Cash flows from investing activities. Cash used for investing activities during the three months ended September 30, 2012 totaled \$16.6 million. Development of our renewable energy plants used \$11.6 million. In addition, we invested \$1.7 million in purchases of other property and equipment; and \$3.7 million was used for the acquisition of FAME.

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Cash used for investing activities during the three months ended September 30, 2011 totaled \$78.7 million, related to the development of renewable energy plants which used \$16.8 million, \$0.9 million related to purchases of other property and equipment and \$61.0 million was used for the acquisitions of AEG and Ameresco Southwest.

Cash flows from investing activities primarily relate to capital expenditures to support our growth.

Cash flows from financing activities. Net cash provided by financing activities during the three months ended September 30, 2012 totaled \$11.1 million. Most of this was due to proceeds of \$12.0 million from the revolver portion of our renewed senior secured credit facility (see Note 13 and the discussion below) and proceeds from exercises of options of \$1.2 million. These were partially offset by investments in restricted cash of \$1.5 million, and repayments of long term debt of \$1.2 million.

Net cash provided by financing activities during the three months ended September 30, 2011 totaled \$41.6 million. Most of this was due to the draw down of the \$40.0 million term loan portion of our renewed senior secured credit facility (see Note 13 and the discussion below).

Nine Months Ended September 30, 2011 and 2012

Cash flows from operating activities. Operating activities provided \$42.6 million of net cash during the nine months ended September 30, 2012. During that period, we had net income of \$13.4 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$12.8 million. Restricted cash draws (net of federal ESPC financing), accounts receivable including retainage, inventory, total billings and costs in excess of estimated earnings, prepaid expenses and other current assets, other liabilities and income taxes payable provided \$30.9 million. However, project development costs, other assets and accounts payable and accrued expenses used \$14.6 million in cash.

Operating activities used \$11.8 million of net cash during the nine months ended September 30, 2011. During that period, we had net income of \$26.5 million, which is net of non-cash compensation, depreciation, amortization, deferred income taxes and other non-cash items totaling \$13.4 million. Net increases in restricted cash draws (net of Federal ESPC financing), accounts payable and accrued expenses provided \$20.1 million. However net decreases in accounts receivable, inventory, net costs and estimated earnings in excess of billings, prepaid expenses and other current assets, and income taxes payable used \$71.3 million in cash.

Cash flows from investing activities. Cash used for investing activities during the nine months ended September 30, 2012 totaled \$34.8 million, and consisted of capital investments of \$31.3 million related to the development of renewable energy plants, \$4.1 million related to purchases of other property and equipment, and \$3.7m was used for the acquisition of FAME. Offsetting these amounts were \$4.2 million of Section 1603 and other rebates received during the period.

Cash used for investing activities during the nine months ended September 30, 2011 totaled \$90.4 million, and consisted of capital investments of \$31.6 million related to the development of renewable energy plants, \$2.7 million related to purchases of other property and equipment \$61.0 million for the acquisitions of AEG and Ameresco Southwest and \$2.0 million for acquisition related costs for the 2010 acquisition of Quantum. Offsetting these amounts were \$6.7 million of Section 1603 rebates received during the period.

Cash flows from investing activities primarily relate to capital expenditures to support our growth.

Cash flows from financing activities. Net cash used by financing activities during the nine months ended September 30, 2012 totaled \$7.6 million. This was due to investments in restricted cash of \$6.3 million, repayment of \$3.4 million of long-term project debt, and settlement of the book overdraft of \$7.3 million. These were partially offset by proceeds of \$4.2 million on the term loan portion of our renewed senior secured credit facility (see Note 13 and the discussion below), excess tax benefits from stock-based compensation arrangements of \$2.4 million and proceeds from exercises of options of \$3.0 million.

Net cash provided by financing activities during the nine months ended September 30, 2011 totaled \$90.3 million. Most of this was due to the draw down of the \$38.6 million term loan portion of our renewed senior secured credit facility (see Note 13 and the discussion below) and proceeds from long-term debt financing of \$5.5 million. Exercises of options also provided \$4.9 million. These were partially offset by a repayment of \$4.0 million of long-term project

debt.

Senior Secured Credit Facility — Revolver and Term Loan

In 2008, we entered into a credit and security agreement with Bank of America, consisting of a \$50.0 million revolving facility. The agreement required us to pay monthly interest at various rates in arrears, based on the amount outstanding. This facility had a maturity date of June 30, 2011. The facility was secured by a lien on all of our assets other than renewable energy projects that we own that were financed by others, and limited our ability to enter into other financing arrangements.

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Availability under the facility was based on two times our EBITDA for the preceding four quarters, and we were required to maintain a minimum EBITDA of \$20.0 million on a rolling four-quarter basis and a minimum level of tangible net worth.

On June 30, 2011, we again amended and restated the credit and security agreement with Bank of America, adding Webster Bank as an additional lender. The new credit facility extended and expanded our prior existing credit facility, and consists of a \$60.0 million revolving credit facility and a \$40.0 million term loan. At September 30, 2012, \$32.9 million was outstanding under the term loan and \$13.5 million was outstanding under the revolving credit facility. The revolving credit facility may be increased by up to an additional \$25.0 million at our option, if the lenders agree. The term loan requires quarterly principal payments of \$1.4 million together with accrued but unpaid interest, with the balance due at maturity. Ameresco, Inc. remains the sole borrower under the credit facility. The new credit facility is secured by a lien on all of our assets other than renewable energy projects that we own that were financed by others, and limits our ability to enter into other financing arrangements. Availability under the revolving credit facility is based on two times our EBITDA for the preceding four quarters, and we are required to maintain a minimum EBITDA of \$40.0 million on a rolling four-quarter basis. The new credit facility matures on June 30, 2016, when all amounts will be due and payable in full.

Project Financing

Construction and Term Loans. We have entered into a number of construction and term loan agreements for the purpose of constructing and owning certain renewable energy plants. The physical assets and the operating agreements related to the renewable energy plants are owned by wholly-owned, single member special purpose subsidiaries.

These construction and term loans are structured as project financings made directly to a subsidiary, and upon acceptance of a project, the related construction loan converts into a term loan. While we are required under generally accepted accounting principles to reflect these loans as liabilities on our consolidated balance sheet, they are generally nonrecourse and not direct obligations of Ameresco, Inc. As of September 30, 2012, we had outstanding \$52.5 million in aggregate principal amount under these loans, bearing interest at rates ranging from 6.1% to 8.9% and maturing at various dates from 2013 to 2027. One loan totaling \$5.0 million, does require Ameresco, Inc. to provide assurance to the lender of the project performance. As of December 31, 2011, we had outstanding \$56.2 million in aggregate principal amount under these loans, bearing interest at rates ranging from 6.1% to 8.9% and maturing at various dates from 2013 to 2024.

Federal ESPC Receivable Financing. 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 \$136.5 million and \$109.6 million in principal amounts at September 30, 2012 and December 31, 2011, respectively. Under the terms of these financing arrangements, we are required to complete the construction or installation of the project in accordance with the contract with our customer, and the debt remains on our consolidated balance sheet until the completed project is accepted by the customer.

Our senior secured credit facility and construction and term loan agreements require us to comply with a variety of financial and operational covenants. As of September 30, 2012 we were in compliance with all of our 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.

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Contractual Obligations

The following table summarizes our significant contractual obligations and commitments as of September 30, 2012:

(in \$'000s)	Payments due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Senior Secured Credit Facility:					
Revolver	\$13,500	\$—	\$—	\$13,500	\$—
Term Loan	32,857	5,714	11,429	15,714	—
Project Financing:					
Construction and term loans	52,467	5,649	9,142	8,425	29,251
Federal ESPC receivable financing (1)	136,516	—	136,516	—	—
Interest obligations (2)	25,226	4,815	7,572	5,410	7,429
Operating leases	8,935	3,002	3,503	1,947	483
Total	\$269,501	\$19,180	\$168,162	\$44,996	\$37,163

Federal ESPC receivable financing arrangements relate to the installation and construction of projects for certain customers, typically federal governmental entities, where we assign to the lenders our right to

customer receivables. We are relieved of the financing liability when the project is completed and accepted by the customer. We typically expect to be relieved of the financing liability between one and three years from the date of project construction commencement. The table does not include, for our federal ESPC receivable financing 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.

- (1) 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 September 30, 2012 remains constant for the term of the facility.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

There have been no new accounting pronouncements during the nine months ended September 30, 2012, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, that are of significance, or potential significance, to us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

We had cash and cash equivalents totaling \$26.2 million as of September 30, 2012 and \$26.3 million as of December 31, 2011. Our exposure to interest rate risk primarily relates to the interest expense paid on our senior secured credit facility.

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Derivative Instruments

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

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

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

Foreign Currency Risk

As a result of our operations in Canada, we have significant expenses, assets and liabilities that are denominated in a foreign currency. Also, a significant number of employees are located in Canada and we transact a significant amount of business in Canadian currency. Consequently, we have determined that Canadian currency is the functional currency for our Canadian operations. When we consolidate the operations of our Canadian subsidiary into our financial results, because we report our results in U.S. dollars, we are required to translate the financial results and position of our Canadian subsidiary from Canadian currency into U.S. dollars. We translate the revenues, expenses, gains, and losses from our Canadian subsidiary into U.S. dollars using a weighted average exchange rate for the applicable fiscal period. We translate the assets and liabilities of our Canadian subsidiary into U.S. dollars at the exchange rate in effect at the applicable balance sheet date. Translation adjustments are not included in determining net income for the period but are disclosed and accumulated in a separate component of consolidated equity until sale or until a complete or substantially complete liquidation of the net investment in our Canadian subsidiary takes place. Changes in the values of these items from one period to the next which result from exchange rate fluctuations are recorded in our consolidated statements of changes in stockholders' equity as accumulated other comprehensive income (loss). For the year ended December 31, 2011, due to changes in the U.S.-Canadian exchange rate that were unfavorable to the value of the Canadian dollar versus the U.S. dollar, our foreign currency translation resulted in a loss of \$1.0 million which we recorded as a decrease in accumulated other comprehensive income. For the nine months ended September 30, 2012, due to changes in the U.S.-Canadian exchange rate that were unfavorable to the value of the Canadian dollar versus the U.S. dollar, our foreign currency translation resulted in a loss of \$1.0 million, which we recorded as a decrease in accumulated other comprehensive loss.

As a consequence, gross profit, operating results, profitability and cash flows are impacted by relative changes in the value of the Canadian dollar. We have not repatriated earnings from our Canadian subsidiary, but have elected to invest in new business opportunities there. We do not hedge our exposure to foreign currency exchange risk.

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 of September 30, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that 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. Disclosure controls and procedures include, without limitation, controls and procedures 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 accumulated and communicated to the company's management, including its principal executive and principal financial officer,

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as appropriate to allow timely decisions regarding required disclosure. 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 end of the period covered by this report, or the evaluation date, have concluded that as of the evaluation date, our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 15, 2012, and discussed below.

Changes in Internal Control over Financial Reporting

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

Material Weakness Discussion and Remediation

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 15, 2012, we identified a material weakness in our internal control over financial reporting. In connection with our fiscal 2011 audit, we concluded that we did not have sufficient personnel in place for an adequate amount of time or effective operating internal control procedures to ensure timely and accurate reviews necessary to provide reasonable assurance that financial statements and related disclosures could be prepared in accordance with generally accepted accounting principles.

Though we implemented several changes in our internal control over financial reporting during the period from the fourth quarter of 2010 through the end of 2011 that contributed to partially remediating our previously disclosed and continuing material weaknesses, the additional staff accountants were hired in the second half of 2011 and required additional time and training to learn our business and operating processes and procedures. Moreover, we may find it beneficial to hire additional accounting personnel to improve the levels of review of accounting and financial reporting matters. If we choose to do so, we may experience delays in doing so and any such additional employees would require time and training to learn our business and operating processes and procedures. In addition, we continue to automate our processes and upgrade and enhance financial reporting systems, which are contributing to enhancing the timeliness of our closing process. For the near-term future, until our personnel are familiar with our business and reporting structure, as well as our upgraded and enhanced financial reporting system, this will continue to constitute a material weakness in our internal control over financial reporting that could result in material misstatements in our financial statements not being prevented or detected.

We expect that our remediation efforts will continue throughout fiscal year 2012. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies and upgrade or enhance existing internal controls as our business grows. For example, we implemented the following changes in our internal control over financial reporting during the course of 2012:

- we hired directors of business services and project accounting and of financial reporting and compliance, both of whom began employment in the third quarter of 2012;
- we have restructured our accounting organization to improve the efficiency and adequacy of review processes, which we began implementing in the third quarter of 2012 and which will continue throughout the remainder of 2012; and
- we have begun hiring for additional accounting and business services roles in the third quarter of 2012.

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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 7, Commitments and Contingencies, to our condensed consolidated financial statements included in this report, which is incorporated into this item by reference.

Item 1A. Risk Factors

Except as updated in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, filed with the SEC on August 8, 2012, or as set forth below, as of September 30, 2012, 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, 2011.

We may be liable for duties on certain solar products imported from the People's Republic of China, or PRC.

On October 10, 2012, the U.S. Department of Commerce, or Commerce, announced its final determination to impose anti-dumping and countervailing duties of 249.96%, as applied to us, and 15.24%, respectively, on the value of imports of solar cells manufactured in the PRC, including solar modules containing such cells. Under Commerce's determination, the anti-dumping and countervailing duties both were to apply retroactively 90 days from the date each first was published to February 25, 2012 and December 21, 2011, respectively. We estimate that we have received shipments of solar modules subject to these duties with an aggregate value of approximately \$3.4 million, comprising approximately \$2.2 million relating to shipments received during the 90-day anti-dumping retroactive period and \$1.2 million relating to shipments received since May 25, 2012. On November 7, 2012, the International Trade Commission announced its final determination upholding the duties, but eliminating the retroactive periods. There remain procedural avenues for seeking a separate and reduced anti-dumping duty rate, several of which have been granted at a rate of approximately 26%.

As of July 2012, we have ceased imports of modules containing PRC solar cells, and have arranged for production of modules utilizing non-PRC cells, thus eliminating the imposition of these duties on further shipments. In addition, we are monitoring and evaluating our alternatives for obtaining a separate and reduced anti-dumping duty rate for solar modules previously imported, though we can provide no assurance that we will obtain such a reduced rate. Depending on whether the maximum anti-dumping duty rate of 249.96% or some lower rate applies, we may be liable for combined duties of up to approximately \$3.3 million.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed (other than exhibits 32.1 and 32.2) as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

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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: November 9, 2012

By: /s/ Andrew B. Spence

Andrew B. Spence

Vice President and Chief Financial Officer

(duly authorized and principal financial officer)

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Exhibit Index

Exhibit Number	Description
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**	Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Principal Financial Officer Certification 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 September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

**Furnished herewith.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or ***part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.