

Ameresco, Inc.
Form 10-Q/A
November 16, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A

Amendment No. 1
(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, 2011

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):

Non-accelerated Filer

Large Accelerated Filer Accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company

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

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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 4, 2011
Class A Common Stock, \$0.0001 par value per share	25,360,711
Class B Common Stock, \$0.0001 par value per share	18,000,000

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EXPLANATORY NOTE

Ameresco, Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011 (the "Initial Form 10-Q"), as originally filed with the U.S. Securities and Exchange Commission ("SEC") on November 14, 2011, for the sole purpose of correcting a typographical error identified by the Company. Specifically, the Company is filing this Amendment No. 1 to correct the reported pre-tax loss of AEG following its acquisition date as presented in Note 3 to the condensed consolidated financial statements on page 18, and also the title of the corresponding line of the table. The correct figure is \$172,730 and the corresponding line in the table is titled "Pre-tax (loss) income". This Amendment No. 1 does not restate any previously reported financial statements or, except as indicated above, change any other disclosures.

This Amendment No. 1 continues to speak as of the original filing date of the Initial Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date and, other than as expressly indicated in the immediately preceding paragraph, does not modify or update in any way disclosures made in the Initial Form 10-Q.

References to "Quarterly Report on Form 10-Q" in this Amendment No.1 refer to the Initial Form 10-Q as amended by this Amendment No. 1.

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 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011
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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	September 30, 2011 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$44,691,021	\$31,734,749
Restricted cash	9,197,447	12,687,929
Accounts receivable, net	68,584,304	143,856,513
Accounts receivable retainage	18,452,777	18,562,244
Costs and estimated earnings in excess of billings	35,556,425	55,093,772
Inventory, net	6,780,092	8,323,380
Prepaid expenses and other current assets	8,471,628	10,216,107
Income tax receivable	2,511,542	9,504,152
Deferred income taxes	9,908,240	12,668,142
Project development costs	7,556,345	8,170,697
Total current assets	211,709,821	310,817,685
Federal ESPC receivable	193,551,495	236,595,684
Property and equipment, net	5,406,387	6,684,625
Project assets, net	145,147,475	169,092,913
Deferred financing fees, net	3,412,186	3,722,968
Goodwill	20,580,995	41,907,853
Intangible assets, net	—	13,221,000
Other assets	4,598,980	6,390,885
	372,697,518	477,615,928
	\$584,407,339	\$788,433,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$4,722,118	\$11,115,586
Accounts payable	95,302,897	116,278,050
Accrued expenses and other current liabilities	12,517,671	12,260,683
Billings in excess of cost and estimated earnings	27,555,894	31,345,206
Income taxes payable	2,488,672	802,290
Total current liabilities	142,587,252	171,801,815
Long-term debt, less current portion	202,409,484	325,905,269
Deferred income taxes	12,013,799	24,125,829
Deferred grant income	4,200,929	6,109,406
Other liabilities	28,144,144	29,673,680
	\$246,768,356	\$385,814,184

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, 2010	September 30, 2011 (Unaudited)
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2010 and September 30, 2011	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 27,925,649 shares issued and 23,092,365 outstanding at December 31, 2010, 30,150,070 shares issued and 25,316,786 outstanding at September 30, 2011	2,793	3,015
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at December 31, 2010 and September 30, 2011	1,800	1,800
Additional paid-in capital	74,069,087	86,725,095
Retained earnings	126,609,101	153,088,094
Accumulated other comprehensive income	3,551,521	182,181
Less — treasury stock, at cost, 4,833,284 shares	(9,182,571) (9,182,571
Total stockholders' equity	195,051,731	230,817,614
	\$584,407,339	\$788,433,613

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

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended September 30,	
	2010	2011
	(Unaudited)	
Energy efficiency revenue	\$147,863,350	\$188,718,434
Renewable energy revenue	44,038,079	39,085,134
	191,901,429	227,803,568
Direct expenses:		
Energy efficiency expenses	121,906,348	155,890,159
Renewable energy expenses	35,114,345	32,058,319
	157,020,693	187,948,478
Gross profit	34,880,736	39,855,090
Operating expenses:		
Salaries and benefits	8,409,014	10,984,929
Project development costs	2,716,616	5,174,930
General, administrative and other	4,841,508	7,286,542
	15,967,138	23,446,401
Operating income	18,913,598	16,408,689
Other expenses, net (Note 10)	(2,010,030)	(1,359,913)
Income before provision for income taxes	16,903,568	15,048,776
Income tax provision	(4,862,651)	(2,690,196)
Net income	12,040,917	12,358,580
Other comprehensive income (loss):		
Unrealized loss from interest rate hedge, net of tax	(746,087)	(1,775,890)
Foreign currency translation adjustment	879,842	(2,267,225)
Comprehensive income	\$12,174,672	\$8,315,465
Net income per share attributable to common shareholders:		
Basic	\$0.35	\$0.29
Diluted	\$0.28	\$0.27
Weighted average common shares outstanding:		
Basic	34,434,352	43,116,861
Diluted	43,445,391	46,308,032

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

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Nine Months Ended September 30,	
	2010	2011
	(Unaudited)	
Revenue:		
Energy efficiency revenue	\$323,578,578	\$418,697,750
Renewable energy revenue	115,305,944	121,007,530
	438,884,522	539,705,280
Direct expenses:		
Energy efficiency expenses	267,495,450	344,499,360
Renewable energy expenses	91,955,471	95,216,122
	359,450,921	439,715,482
Gross profit	79,433,601	99,989,798
Operating expenses:		
Salaries and benefits	21,893,756	29,232,330
Project development costs	7,893,558	14,839,723
General, administrative and other	16,156,553	17,848,103
	45,943,867	61,920,156
Operating income	33,489,734	38,069,642
Other expenses, net (Note 10)	(4,082,417) (3,248,919
Income before provision for income taxes	29,407,317	34,820,723
Income tax provision	(8,381,084) (8,341,730
Net income	21,026,233	26,478,993
Other comprehensive income (loss):		
Unrealized loss from interest rate hedge, net of tax	(2,297,667) (1,991,877
Foreign currency translation adjustment	689,797	(1,377,463
Comprehensive income	\$19,418,363	\$23,109,653
Net income per share attributable to common shareholders:		
Basic	\$1.02	\$0.63
Diluted	\$0.53	\$0.58
Weighted average common shares outstanding:		
Basic	20,563,849	42,275,367
Diluted	39,513,507	45,377,104

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, 2011
 (Unaudited)

	Series A Preferred Stock	Class B Common Stock Amount	Common Shares	Class A Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehens ive Income
Balance, December 31, 2010	\$ 18,000,000	\$ 1,800	27,925,649	\$ 2,793	\$ 74,069,087	\$ 126,609,101	4,833,284	\$(9,182,571)	\$ 3,551,521
Exercise of stock options, net	—	—	2,224,421	222	4,907,423	—	—	—	—
Stock-based compensation expense, including excess tax benefits of \$5,721,385	—	—	—	—	7,748,585	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(1,377,463)
Unrealized loss from interest rate hedge, net of tax	—	—	—	—	—	—	—	—	(1,991,877)
Net income	—	—	—	—	—	26,478,993	—	—	—
Balance, September 30, 2011	\$ 18,000,000	\$ 1,800	30,150,070	\$ 3,015	\$ 86,725,095	\$ 153,088,094	4,833,284	\$(9,182,571)	\$ 182,181

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

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AMERESCO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,	
	2010	2011
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$12,040,917	\$12,358,580
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation of project assets	4,206,992	2,676,004
Depreciation of property and equipment	589,029	845,947
Amortization of deferred financing fees	306,398	106,776
Amortization of intangible assets	—	501,000
Provision for bad debts	—	154
Stock-based compensation expense	651,352	432,624
Deferred income taxes	792,193	4,097,831
Excess tax benefits from stock-based compensation arrangements	—	(1,819,749)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	53,185,373	20,465,804
Accounts receivable	(21,103,490)	(45,257,456)
Accounts receivable retainage	(5,204,217)	(915,906)
Federal ESPC receivable	(51,833,048)	(21,910,697)
Inventory	23,790	439,704
Costs and estimated earnings in excess of billings	(8,859,603)	2,294,809
Prepaid expenses and other current assets	(1,817,278)	(1,149,248)
Project development costs	(872,942)	(1,383,993)
Other assets	4,560,707	(1,554,165)
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	25,940,748	38,898,718
Billings in excess of cost and estimated earnings	(1,341,379)	4,517,219
Other liabilities	337,826	(4,679,466)
Income taxes payable	(2,541,814)	1,352,618
Net cash provided by operating activities	9,061,554	10,317,108
Cash flows from investing activities:		
Purchases of property and equipment	(877,781)	(863,145)
Purchases of project assets	(12,415,691)	(16,837,529)
Acquisitions, net of cash received	(6,138,941)	(60,953,588)
Net cash used in investing activities	\$(19,432,413)	\$(78,654,262)

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

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AMERESCO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Three Months Ended September 30,	
	2010	2011
	(Unaudited)	
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$—	\$1,819,749
Payments of financing fees	(402,625)	(78,924)
Proceeds from exercises of options and warrants, and issuance of stock	59,649,893	905,557
Proceeds from senior secured credit facility	(31,351,119)	41,571,429
Restricted cash	(1,137,175)	(1,136,862)
Repayment of subordinated debt	(2,998,750)	—
Payments on long-term debt	(5,755,902)	(1,444,018)
Net cash provided by financing activities	18,004,322	41,636,931
Effect of exchange rate changes on cash	498,142	(1,347,221)
Net increase (decrease) in cash and cash equivalents	8,131,605	(28,047,444)
Cash and cash equivalents, beginning of period	21,134,396	59,782,193
Cash and cash equivalents, end of period	\$29,266,001	\$31,734,749
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$710,265	\$1,246,530
Income taxes	\$3,652,142	\$1,764,698
Acquisitions, net of cash received:		
Accounts receivable	\$8,354,669	\$18,287,718
Accounts receivable retainage	423,927	—
Costs and estimated earnings in excess of billings	1,947,639	11,269,294
Prepaid expenses and other current assets	33,922	95,674
Property and equipment	127,512	604,637
Project assets	—	6,970,185
Goodwill	2,539,561	21,262,668
Intangible assets	—	13,722,000
Other assets	18,551	52,062
Accounts payable and accrued expenses	(7,032,052)	(7,175,650)
Billings in excess of cost and estimated earnings	(274,788)	—
Deferred income taxes	—	(2,500,000)
Other liabilities	—	(1,635,000)
	\$6,138,941	\$60,953,588

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

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AMERESCO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2010	2011
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$21,026,233	\$26,478,993
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation of project assets	7,623,850	7,126,617
Depreciation of property and equipment	1,234,415	1,927,669
Amortization of deferred financing fees	474,403	312,431
Amortization of intangible assets	—	501,000
Provision for bad debts	—	24,374
Write-down of long-term receivable	2,111,000	—
Unrealized loss on interest rate swaps	133,591	—
Stock-based compensation expense	1,758,503	2,027,200
Deferred income taxes	—	7,243,425
Excess tax benefits from stock-based compensation arrangements	—	(5,721,385)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Restricted cash draws	108,936,357	98,682,379
Accounts receivable	(24,037,153)	(57,839,917)
Accounts receivable retainage	(7,491,725)	(580,598)
Federal ESPC receivable	(110,522,731)	(95,550,030)
Inventory	(1,071,268)	(1,543,288)
Costs and estimated earnings in excess of billings	(16,660,465)	(8,600,351)
Prepaid expenses and other current assets	(5,518,403)	(1,812,750)
Project development costs	(790,904)	(623,548)
Other assets	6,582,019	(1,758,820)
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	6,749,903	16,997,701
Billings in excess of cost and estimated earnings	2,311,175	4,189,191
Other liabilities	1,702,081	97,928
Income taxes payable	(946,361)	(3,336,415)
Net cash used in operating activities	(6,395,480)	(11,758,194)
Cash flows from investing activities:		
Purchases of property and equipment	(1,361,876)	(2,669,779)
Purchases of project assets	(24,783,062)	(31,558,420)
Grant awards received on project assets	—	6,695,711
Acquisitions, net of cash received	(6,138,941)	(60,953,588)
Additional purchase price paid on 2010 acquisition (Note 3)	—	(1,956,366)
Net cash used in investing activities	\$(32,283,879)	\$(90,442,442)

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

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AMERESCO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Nine Months Ended September 30,	
	2010	2011
	(Unaudited)	
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	\$—	\$5,721,385
Payments of financing fees	(1,300,058)	(623,213)
Proceeds from exercises of options and warrants, and issuance of stock	60,062,759	4,907,645
Repurchase of stock	(768,970)	—
Proceeds from senior secured credit facility	(19,915,218)	81,571,429
Proceeds from long-term debt financing	812,398	5,500,089
Restricted cash	(5,956,433)	(2,812,428)
Repayment of subordinated debt	(2,998,750)	—
Payments on long-term debt	(10,548,598)	(3,998,627)
Net cash provided by financing activities	19,387,130	90,266,280
Effect of exchange rate changes on cash	630,690	(1,021,916)
Net decrease in cash and cash equivalents	(18,661,539)	(12,956,272)
Cash and cash equivalents, beginning of year	47,927,540	44,691,021
Cash and cash equivalents, end of period	\$29,266,001	\$31,734,749
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$3,228,744	\$3,063,570
Income taxes	\$5,052,664	\$6,800,454
Acquisitions, net of cash received:		
Accounts receivable	\$8,354,669	\$18,287,718
Accounts receivable retainage	423,927	—
Costs and estimated earnings in excess of billings	1,947,639	11,269,294
Prepaid expenses and other current assets	33,922	95,674
Property and equipment	127,512	604,637
Project assets	—	6,970,185
Goodwill	2,539,561	21,262,668
Intangible assets	—	13,722,000
Other assets	18,551	52,062
Accounts payable and accrued expenses	(7,032,052)	(7,175,650)
Billings in excess of cost and estimated earnings	(274,788)	—
Deferred income taxes	—	(2,500,000)
Other liabilities	—	(1,635,000)
	\$6,138,941	\$60,953,588

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, 2010 and September 30, 2011, and for the three and nine months ended September 30, 2010 and 2011, include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. The condensed consolidated financial statements as of September 30, 2011, and for the three and nine months ended September 30, 2010 and 2011, 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, 2010, and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 31, 2011. 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. and its wholly-owned subsidiaries. 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 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 with regard to these condensed consolidated financial statements relate to the estimation 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 estimating 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.

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, 2010 and 2011 are as follows:

	Nine Months Ended September 30,	
	2010	2011
Balance, beginning of period	\$1,602,079	\$1,677,278
Charges to costs and expenses	—	24,374
Account write-offs and other	(17,006) 4,915
Balance, end of period	\$1,585,073	\$1,706,567

At December 31, 2010 and at September 30, 2011, no customer accounted for more than 10% of the Company's total accounts receivable.

During the three months ended September 30, 2010 and for the three and nine months ended September 30, 2011, no customer accounted for more than 10% of the Company's total revenue.

During the nine months ended September 30, 2010 the Company had one customer that accounted for approximately 11.3% 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 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 realizable values). Provisions have been made to reduce the carrying value to the realizable value.

Prepaid Expenses

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

Federal ESPC Receivable

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

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AMERESCO, INC.

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

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. These assets are 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 nine months ended September 30, 2010 was \$252,113. No interest was capitalized for the three months ended September 30, 2010 or the three and nine months ended September 30, 2011.

Routine maintenance costs are expensed in the current year's condensed consolidated statements of income and comprehensive 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 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 and comprehensive 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. d

In February and March 2011, the Company received a total of \$6,695,711 in 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 proceeds from the grants were used and recorded as a reduction in the cost basis of the applicable project assets. If the Company disposes of the property, or the property ceases to qualify as specified energy property, within five years from the date the property is placed in service, then a prorated portion of the Section 1603 payment must be repaid. 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 \$4,200,929 and \$6,109,406 in the accompanying condensed consolidated balance sheets at December 31, 2010 and September 30, 2011, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

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AMERESCO, INC.

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

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.

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 assesses the impairment of goodwill and intangible assets that have indefinite lives on an annual basis (December 31st) and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than their carrying values. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets.

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

During April 2011, the Company made an additional payment of approximately \$2,000,000 in accordance with certain provisions of the stock purchase agreement with the former shareholders of Quantum Engineering and Development, Inc. ("Quantum"). The payment has been reflected retrospectively as additional goodwill in the accompanying consolidated balance sheets in accordance with ASC 805, Business Combinations.

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"). The net purchase prices have been allocated to the net identified assets acquired based on fair values at the respective date of the acquisition with the residual amounts allocated to goodwill. The acquisition of AEG resulted in the Company recording an initial carrying value of goodwill totaling \$5,170,508. For the acquisition of Ameresco Southwest, the Company recorded an initial carrying value of goodwill of \$16,092,160. Acquired intangible assets other than goodwill that are subject to amortization include customer contracts and relationships as well as software and non-compete agreements. The intangible assets are amortized over a period of approximately five years from the respective date of acquisition. See Note 3 for more information.

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 accreted to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the condensed consolidated statements of income and comprehensive income. As of December 31, 2010 and September 30, 2011, 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 derivatives and deferred compensation relating to the 2010 and July 2011 acquisitions. See Note 3 and 7.

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

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

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.

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 at December 31, 2010 and September 30, 2011.

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, and, if applicable, costs of procuring financing. A majority of the Company's contracts have fixed price terms; however, in some cases the Company negotiates protections, such as a cost-plus structure, to mitigate the risk of rising prices for materials, services and equipment.

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

Income Taxes

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

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

to reflect any subsequent changes in the relevant facts surrounding the uncertain positions.

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

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AMERESCO, INC.

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

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 income and comprehensive income.

Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, long-term contract receivables, accounts payable, long-term debt and interest rate swaps. The estimated fair value of cash and cash equivalents, restricted cash, accounts receivable, long-term contract receivables and accounts payable approximates their carrying value. See below for fair value measurements of long-term debt. See Note 11 for fair value 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.

The Company has no history of paying dividends. Additionally, as of each of the grant dates, there was no expectation to 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

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

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, 2010 or for the nine months ended September 30, 2011.

Fair Value Measurements

In 2009, the Company adopted 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 adoption of this guidance did not have a material impact on its condensed consolidated financial statements.

The Company's financial instruments include cash and cash equivalents, accounts and notes receivable, interest rate swaps, accounts payable, accrued expenses, equity-based liabilities and short- and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of September 30, 2011, the carrying value of the Company's fixed-rate long-term debt exceeds its fair value by approximately \$1,181,464. 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. 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 notional amounts of approximately \$13,100,000 and \$2,900,000, 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 consolidated statements of income prior to April 1, 2010, and in the consolidated statements of comprehensive income (loss) thereafter. Cash flows from derivative instruments were reported as operating activities in the 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 a 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 consolidated balance sheets and any changes in the fair value are recorded as adjustments to other comprehensive income (loss).

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

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 a notional amount of \$38,571,429 variable rate note at a fixed interest rate of 1.965% and expires in June 2016.

With respect to the Company's interest rate swaps that had been designated as cash flow hedges, the Company recorded an unrealized loss in earnings during the nine months ended September 30, 2010 of approximately \$133,591, as other expenses, net in the condensed consolidated statements of income and comprehensive income. No unrealized gains (losses) were recorded during the three months ended September 30, 2010 or the three and nine months ended September 30, 2011.

See Note 12 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 September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Basic and diluted net income	\$12,040,917	\$12,358,580	\$21,026,233	\$26,478,993
Basic weighted-average shares outstanding	34,434,352	43,116,861	20,563,849	42,275,367
Effect of dilutive securities:				
Preferred stock	4,396,304	—	14,250,988	—
Stock options	4,614,735	3,191,171	4,698,670	3,101,737
Diluted weighted-average shares outstanding	43,445,391	46,308,032	39,513,507	45,377,104

For the three and nine months ended September 30, 2010, 856,000 shares of common stock were excluded from the calculation of dilutive shares as the effect would be anti-dilutive. 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 since the inclusion of such shares 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 four regions meet the aggregation criteria set forth in ASC 280, Segment Reporting. The "all other" category includes activities, such as 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 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, 2010 and 2011, unallocated corporate expenses were \$7,712,229 and \$10,259,457, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2010 and 2011, was \$866,405 and \$194,499, respectively. For the nine months ended September 30, 2010 and 2011, unallocated corporate expenses were \$21,700,187 and \$28,636,642, respectively. Income before taxes and unallocated corporate expenses for all other for

the nine months ended September 30, 2010 and 2011 was \$9,671,347 and \$7,564,040, respectively. See Note 13.

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 approximately \$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 consolidated balance sheets in accordance with AS 805, Business Combinations.

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

In July 2011, the Company acquired AEG from its stockholders. The Company made an initial cash payment of \$10,650,000 to acquire all of the outstanding stock of AEG. The purchase price is subject to a post-closing working capital adjustment that is expected to be completed in the fourth quarter of 2011. 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 is estimated to be \$1,635,000, 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 an initial cash payment of \$50,618,230 to acquire all of the outstanding stock of Ameresco Southwest. The purchase price is subject to a post-closing working capital and certain other adjustments that are expected to be completed in the first quarter of 2012.

The Company's acquisitions in 2010 and 2011 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 acquisitions 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.

	2010	2011	
	Quantum	AEG	Ameresco Southwest
Cash	\$ 11,059	\$ 314,642	\$—
Accounts receivable	8,354,669	4,138,015	14,149,703
Accounts receivable retainage	423,927	—	—
Costs and estimated earnings in excess of billings	1,947,639	—	11,269,294
Prepaid expenses and other current assets	33,922	62,345	33,329
Property and equipment and project assets	127,512	7,301	7,567,521
Goodwill	4,495,927	5,170,508	16,092,160
Intangible assets	—	6,525,000	7,197,000
Other assets	18,551	52,062	—
Accounts payable	(6,374,371)	(1,610,734)	(3,007,748)
Accrued liabilities	(657,681)	125,861	(2,683,029)
Billings in excess of cost and estimated earnings	(274,788)	—	—
Deferred taxes and other liabilities	—	(4,135,000)	—
Purchase price	\$ 8,106,366	\$ 10,650,000	\$ 50,618,230
Total, net of cash received	\$ 8,095,307	\$ 10,335,358	\$ 50,618,230
Total fair value of consideration	\$ 8,106,366	\$ 10,650,000	\$ 50,618,230

The allocation of the purchase price for the 2011 acquisitions are 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 consolidated statements of income and comprehensive income and consolidated statements of cash flows. The year-to-date revenue and pre-tax income (loss) of the acquisitions in 2011 following their corresponding acquisition dates, is as follows:

	2011	
	AEG	Ameresco Southwest
Revenue	\$ 6,424,803	\$ 9,579,694

Pre-tax (loss) income	\$ (172,730)	\$ 766,329
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AMERESCO, INC.

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

The acquisition related information does not include any data related to the 2010 Quantum acquisition as this has been deemed immaterial to the Company. This supplemental pro forma information that follows 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, 2010, 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 presentation:

	Three Months Ended September		Nine Months Ended September	
	30,	2011	30,	2011
	2010		2010	2011
Pro forma consolidated results:				
Revenue	\$219,168,728	\$235,726,015	\$500,519,430	\$586,450,766
Income	\$14,152,507	\$11,927,395	\$22,840,097	\$27,312,934
Basic earnings per share	\$0.41	\$0.28	\$1.11	\$0.65
Diluted earnings per share	\$0.33	\$0.26	\$0.58	\$0.60

4. GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill balances included in total assets by segment. Goodwill consisted of the following at December 31, 2010 and September 30, 2011:

	December 31,	Acquisitions	Foreign Currency Translation and Other Adjustments	September 30, 2011
	2010			
U.S. Federal	\$3,374,967	\$—	\$—	\$3,374,967
Central U.S. Region	1,972,415	—	—	1,972,415
Other U.S. Regions	4,906,875	16,092,160	—	20,999,035
Canada	2,680,933	—	64,190	2,745,123
All Other	7,645,805	5,170,508	—	12,816,313
Total	\$20,580,995	\$21,262,668	\$64,190	\$41,907,853

Intangible assets recorded by the Company are amortized over a period of approximately five years from the dates of recognition. The following table presents intangible asset balances included in total assets by segment. Intangible assets, net, consisted of the following December 31, 2010 and September 30, 2011:

	December 31,	Acquisitions	Accumulated Amortization	September 30, 2011
	2010			
Other U.S. Regions:				
Customer contracts and relationships	\$—	\$5,110,000	\$(145,000)	\$4,965,000
Non-compete agreements	—	1,860,000	(47,000)	1,813,000
Technology	—	227,000	(6,000)	221,000
All Other:				
Customer contracts and relationships	—	5,196,000	(236,000)	4,960,000
Technology	—	491,000	(25,000)	466,000
Non-compete agreements	—	448,000	(22,000)	426,000
Trade names	—	390,000	(20,000)	370,000
Total	\$—	\$13,722,000	\$(501,000)	\$13,221,000

Amortization expense of intangible assets for both three and nine months ended September 30, 2011 was \$501,000 and is included in general, administrative and other expenses in the condensed consolidated statements of income and

comprehensive income.

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AMERESCO, INC.

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

5. INCOME TAXES

The provision for income taxes was \$4,862,651 and \$2,690,196, for the three months ended September 30, 2010 and 2011, respectively. The provision for income taxes was \$8,381,084 and \$8,341,730 for the nine months ended September 30, 2010 and 2011, respectively. The effective tax rate changed to 17.9% for the three months ended September 30, 2011 from 28.8% for the three months ended September 30, 2010. The effective tax rate changed to 24.0% for the nine months ended September 30, 2011 from 28.5% for the nine months ended September 30, 2010. 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 quarter.

6. STOCK INCENTIVE PLAN

In 2000, the Company's Board of Directors approved the Company's 2000 Stock Incentive Plan (the "2000 Plan") and authorized the Company to reserve 12,000,000 shares of its then authorized common stock, par value \$0.0001 per share ("Common Stock") for issuance under the 2000 Plan. From 2001 to 2009, the Company's Board of Directors authorized the Company to reserve an additional 16,500,000 shares of Common Stock for issuance under the 2000 Plan, bringing the total number of shares of Common Stock reserved under the 2000 Plan to 28,500,000. 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 December 31, 2010, no stock options had been granted under the 2010 Plan. During the nine months ended September 30, 2011, the Company granted options to purchase 228,688 shares of Class A common stock under the 2010 Plan. The options were granted at a weighted average exercise price of \$12.63 per share.

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, 2011, 9,771,312 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, 2010	8,274,000	\$ 4.177
Granted (1)	228,688	12.633
Exercised	(2,226,421)	(2.208)
Forfeited	(305,700)	(10.999)
Outstanding at September 30, 2011	5,970,567	\$ 4.886
Options exercisable at September 30, 2011	4,387,929	\$ 3.593
Expected to vest at September 30, 2011	1,255,406	\$ 8.478
Options exercisable at December 31, 2010	6,066,750	\$ 2.956

(1) Grants are related to the 2010 Plan.

The weighted-average remaining contractual life of all options expected to vest at September 30, 2011 was 4.26 years. The total intrinsic value of options exercised during the nine months ended September 30, 2011 was \$18,026,604.

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AMERESCO, INC.

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

The following table summarizes information about stock options outstanding at September 30, 2011:

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	\$0.875	424,862	0.82	\$ 0.875	424,862	\$ 0.875
2000 Plan	1.500	20,000	1.33	1.500	20,000	1.500
2000 Plan	1.750	207,399	1.79	1.750	207,399	1.750
2000 Plan	1.875	112,500	2.04	1.875	112,500	1.875
2000 Plan	2.750	857,239	2.80	2.750	851,239	2.750
2000 Plan	3.000	50,500	3.33	3.000	50,500	3.000
2000 Plan	3.250	883,376	1.76	3.250	883,376	3.250
2000 Plan	3.410	1,010,150	1.79	3.410	887,900	3.410
2000 Plan	4.220	544,853	2.45	4.220	329,353	4.220
2000 Plan	6.055	1,025,000	4.22	6.055	441,800	6.055
2010 Plan	10.950	140,000	6.25	10.950	—	10.950
2000 Plan	13.045	606,000	4.93	13.045	179,000	13.045
2010 Plan	14.810	60,000	6.16	14.810	—	14.810
2010 Plan	16.290	28,688	5.82	16.290	—	16.290
		5,970,567			4,387,929	

During the nine months ended September 30, 2011, a total of 2,226,421 shares were issued upon the exercise of options under the 2000 Plan at an average price of \$2.208 per share. Cash received from option exercise under all stock-based payment arrangements for the nine months ended September 30, 2011 was \$4,907,645.

Under the 2000 Plan and the 2010 Plan, all options expire if not exercised within ten years after the grant date. The options generally vest over five years at a rate of 20% after the first year, and at a rate of five percent every three months beginning one year after 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 vested options 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 2010 and 2011:

	Year Ended December 31,	Nine Months Ended September 30,
	2010	2011
Future dividends	\$ -	\$ -
Risk-free interest rate	2.59%-3.11%	1.36%-2.58%
Expected volatility	57%-59%	42%-45%
Expected life	6.5 years	6-6.5 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

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AMERESCO, INC.

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

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.

The weighted-average fair value of stock options granted during the nine months ended September 30, 2011, under the Black-Scholes option pricing model was \$5.777 per share. For the three months ended September 30, 2010 and 2011, the Company recorded stock-based compensation expense of approximately \$651,352 and \$432,624, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2010 and 2011, the Company recorded stock-based compensation expense of approximately \$1,758,503 and \$2,027,200, 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 consolidated statements of income and comprehensive income based on the salaries and work assignments of the employees holding the options. As of September 30, 2011, there was approximately \$7,810,053 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 3.37 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 dispute involves the customer's assertion of its understanding of the contractual scope of work involved and with the completion date of the project. The Company disputes 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. Discovery is currently ongoing. A hearing on the Company's motion is scheduled for July 1, 2012.

The Company did not record an additional accrual for this matter beyond the adjustments made to the Company's expected profit on this contract because the Company believes that the likelihood is remote that any additional liability would be incurred related to this matter. Based on the contract termination notice, the Company has adjusted its expected contract revenue and profit until such time as this contingency is resolved. The Company had claims of approximately \$4.0 million outstanding with the customer as of September 30, 2011. As of September 30, 2011, the Company has not recognized any revenue or profit associated with these claims.

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.

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 million in additional consideration if AEG 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, 2010 and September 30, 2011 and revenues from sales to unaffiliated customers for the three and nine months ended September 30, 2010 and 2011 between those in the United States and those in other locations, is as follows:

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AMERESCO, INC.

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

	December 31, 2010	September 30, 2011
Assets:		
United States	\$512,290,125	\$714,831,896
Canada	72,012,318	73,491,855
Other	104,896	109,862
	\$584,407,339	\$788,433,613

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Revenue:				
United States	\$159,173,097	\$189,745,710	\$364,673,963	\$449,089,445
Canada	32,442,118	37,235,830	73,468,415	89,063,210
Other	286,214	822,028	742,144	1,552,625
	\$191,901,429	\$227,803,568	\$438,884,522	\$539,705,280

9. RELATED PARTY TRANSACTIONS

The Company's principal and controlling stockholder previously provided a limited personal indemnification to the surety companies that provide performance and payment bonds and other surety products to the Company. During 2010, in connection with the initial public offering the limited personal indemnification provided by the Company's principal and controlling stockholder was removed.

10. OTHER EXPENSES, NET

Other expenses, net, consisted of the following items for the three and nine months ended September 30, 2010 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Unrealized loss from derivatives	\$—	\$—	\$(133,591)	\$—
Interest expense, net of interest income	(1,703,632)	(1,253,137)	(3,474,423)	(2,936,488)
Amortization of deferred financing fees	(306,398)	(106,776)	(474,403)	(312,431)
	\$(2,010,030)	\$(1,359,913)	\$(4,082,417)	\$(3,248,919)

11. 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, 2010 and September 30, 2011:

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AMERESCO, INC.

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

	Level	Fair Value as of December 31, 2010	September 30, 2011
Liabilities:			
Interest rate swap instruments	2	\$3,632,238	\$6,952,034
Total liabilities		\$3,632,238	\$6,952,034

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 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, 2010 or for the nine months ended September 30, 2011.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At December 31, 2010 and September 30, 2011, the following table presents information about the fair value amounts of the Company's derivative instruments:

	Liability Derivatives as of December 31, 2010		September 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other liabilities	\$3,632,238	Other liabilities	\$6,952,034

There were no derivatives not designated as hedging instruments for the three months ended September 30, 2010 and 2011.

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

	Location of Gain (Loss) Recognized in	Amount of Gain (Loss) Recognized in Income on Derivative for the Nine Months Ended September 30, are as follows:	
		2010	2011
Derivatives Not Designated as Hedging Instruments:			
Interest rate swap contracts	Interest (expense) income	\$(133,591)	\$—
	As of September 30, 2011		
	Loss Recognized in Accumulated Other		Loss Reclassified from Accumulated Other

	Comprehensive Income	Comprehensive Income
Derivatives Designated as Hedging Instruments:		
Interest rate swap contracts	\$3,319,796	\$1,207,255

13. 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

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AMERESCO, INC.

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

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 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 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, 2010 and 2011 unallocated corporate expenses were \$7,712,229 and \$10,259,457, respectively. Income before taxes and unallocated corporate expenses for all other for the three months ended September 30, 2010 and 2011 was \$866,405 and \$194,499, respectively. For the nine months ended September 30, 2010 and 2011, unallocated corporate expenses were \$21,700,187 and \$28,636,642, respectively. Income before taxes and unallocated corporate expenses for all other for the nine months ended September 30, 2010 and 2011 was \$9,671,347 and \$7,564,040, respectively. The accounting policies are the same as those described in the summary of significant accounting policies (see Note 2).

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

Ameresco, Inc. and Subsidiaries

Segment Reporting

Three Months Ending September 30, 2010

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$53,278,830	\$37,541,875	\$40,486,208	\$33,466,031	\$27,128,485	\$191,901,429
Interest income	\$—	\$—	\$—	\$5,058	\$1,170	\$6,228
Interest expense	\$—	\$—	\$—	\$855	\$1,842,596	\$1,843,451
Depreciation	\$19,855	\$2,399	\$—	\$103,970	\$4,669,797	\$4,796,021
Income (loss) before taxes	\$8,060,725	\$6,436,116	\$6,558,649	\$2,693,902	\$(6,845,824)	\$16,903,568
Total assets	\$174,640,659	\$24,709,712	\$122,388,247	\$65,692,668	\$161,078,922	\$548,510,208
Capital expenditures	\$23,573	\$26,927	\$697,471	\$4,722,434	\$7,823,067	\$13,293,472

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AMERESCO, INC.

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

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 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

Ameresco, Inc. and Subsidiaries

Segment Reporting

Nine Months Ending September 30, 2010

	U.S. Federal	Central U.S. Region	Other U.S. Regions	Canada	All Other	Total
Total revenue	\$ 114,272,081	\$ 76,743,452	\$ 98,267,620	\$ 74,141,379	\$ 75,459,990	\$ 438,884,522
Interest income	\$—	\$—	\$—	\$ 20,357	\$ 106,377	\$ 126,734
Interest expense	\$—	\$—	\$—	\$ 2,094	\$ 3,732,654	\$ 3,734,748
Depreciation	\$ 60,954	\$ 5,328	\$—	\$ 323,591	\$ 8,468,392	\$ 8,858,265
Income (loss) before taxes	\$ 13,375,554	\$ 9,581,094	\$ 14,675,621	\$ 3,803,888	\$ (12,028,840)	\$ 29,407,317
Total assets	\$ 174,640,659	\$ 24,709,712	\$ 122,388,247	\$ 65,692,668	\$ 161,078,922	\$ 548,510,208
Capital expenditures	\$ 47,466	\$ 37,764	\$ 1,163,624	\$ 5,989,314	\$ 18,906,770	\$ 26,144,938

14. STOCKHOLDERS' EQUITY

Warrants

As part of a previous financing agreement, the Company issued warrants to acquire 2,000,000 and 1,600,000 shares of Common Stock in 2001 and 2002, respectively. The warrants initially had a per share exercise price of \$0.005 and \$0.30, respectively; however, the \$0.30 per share exercise price was subsequently reduced to \$0.005. During 2008, the Company repurchased 3,194,714 of these warrants at an average price of \$2.505 per share, for a total price of \$8.0 million. The Company recorded this transaction in additional paid-in capital. In June 2010, the Company issued 405,286 shares of Common Stock upon the exercise of these warrants at an exercise price of \$0.005 per share, and no warrants to purchase shares of the Company's capital stock remain outstanding.

Stock Split and Reclassification

In July 2010, in connection with the initial public offering (discussed below), the Company implemented a "dual class" capital structure with two classes of common stock: Class A common stock and Class B common stock. In implementing this capital structure, (i) a two-for-one split of the Company's Common Stock was effected, (ii) all outstanding shares of Common Stock were reclassified as Class A common stock; (iii) each outstanding option to purchase shares of Common Stock was converted into an option to purchase shares of Class A common stock, (iv) all

holders of shares of the Company's Series A Preferred Stock (other than George P. Sakellaris, the Company's founder, principal stockholder, president and chief executive officer) elected to convert their shares of Series A Preferred Stock into shares of Class A common stock, and (v) all outstanding shares of the Company's Series A Preferred Stock (which were then held solely by Mr. Sakellaris) automatically converted into shares of Class B common stock. The rights of the holders of the Company's Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of the Company's Class A common stock is entitled to one vote per share and is not convertible into any other shares of the Company's capital stock. Each share of the

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AMERESCO, INC.

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

Company's Class B common stock is entitled to five votes per share, is convertible at any time into one share of Class A common stock at the option of the holder of such share and will automatically convert into one share of Class A common stock upon the occurrence of certain specified events, including a transfer of such shares (other than to such holder's family members, descendants or certain affiliated persons or entities).

All common share and per share amounts in the condensed consolidated financial statements and notes thereto have been restated to reflect the two-for-one stock split of the Common Stock effected on July 20, 2010. At September 30, 2011 the Company has authorized 500,000,000 shares of Class A common stock, par value \$0.0001 per share, 144,000,000 shares of Class B common stock, par value \$0.0001 per share, and 5,000,000 shares of Preferred Stock, par value \$0.0001 per share.

Initial Public Offering

On July 27, 2010, the Company completed its initial public offering of 8,696,820 shares of Class A common stock at a price to the public of \$10.00 per share. Of the shares sold, the Company issued and sold 6,000,000, and existing stockholders sold 2,696,820. In addition, on August 25, 2010, pursuant to the partial exercise of the underwriters' over-allotment option, the Company sold an additional 342,889 shares of its Class A common stock at an offering price of \$10.00 per share. The offering generated gross proceeds to the Company of approximately \$63,400,000, or approximately \$56,400,000 net of underwriting discounts and offering expenses. The offering generated gross proceeds to selling stockholders of approximately \$27,000,000, or approximately \$25,100,000 net of underwriting discounts. The Company incurred approximately \$7,000,000 of expenses in connection with the offering.

15. 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 \$98,311 to \$170,902, 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, 2011, \$5,301,686 was outstanding under the term loan.

Senior Secured Credit Facility - Revolver and Term Loan

On June 10, 2008, the Company entered into an amended and restated credit and security agreement with a bank, consisting of a \$50,000,000 revolving facility. The agreement required the Company to pay monthly interest at various rates in arrears, based on the amount outstanding. In 2010, the weighted-average interest rate was 2.3875%. This facility had an original maturity date of June 30, 2011. At December 31, 2010, no balance was outstanding under the facility. The agreement contained various restrictive covenants and was 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.

On June 30, 2011, the Company again 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, 2011, \$43 million was outstanding under the revolving credit facility and \$38,571,429 was outstanding under the term loan. Payments on the term loan are due in quarterly installments of \$1,428,571, with all remaining unpaid principal amounts due June 30, 2016. The obligations under the facility are guaranteed by certain of the Company's subsidiaries and are secured by a lien on all of the assets of the Company other than renewable energy projects that the Company owns and that are financed by others.

16. SUBSEQUENT EVENTS

On October 3, 2011 the Company entered into a construction and term loan with a syndication group with an original principal amount of \$7,380,068. The note evidencing the loan bears interest at a rate of 6.11%. Monthly interest payments are due from November 1, 2011 to April 1, 2012. The principal amounts are due starting on May 1, 2012 in monthly installments ranging from \$33,466 to \$101,215, plus interest, with remaining principal balances and unpaid interest due April 1, 2027.

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, 2010 included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 31, 2011 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, 2010 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 have no current intention of doing 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 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 13 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 \$618.2 million in 2010. 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 fourteen 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.

Recent Developments

On July 14, 2011 we acquired Applied Energy Group, Inc., or AEG, an energy efficiency and demand side management

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consulting services provider active in the northeast, mid-Atlantic, midwest and other regions.

On August 19, 2011, we acquired APS Energy Services Company, Inc., which we renamed Ameresco Southwest, a full-service company that provides integrated energy efficiency and renewable energy solutions, strengthening our geographical position into the southwest.

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, 2011, 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 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

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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.

Effects of Seasonality

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

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

Backlog and Awarded Projects

Total construction backlog represents projects that are active within our ESPC sales cycle. Our sales cycle begins with the initial contact with the customer and ends, when successful, with a signed contract, also referred to as fully-contracted backlog. Historically, our sales cycle typically has averaged 12 to 36 months. Awarded backlog is created when a potential customer awards a project to Ameresco following a request for proposal. Once a project is awarded but not yet contracted, we typically conduct a detailed energy audit to determine the scope of the project as well as identify the savings that may be expected to be generated from upgrading the customer's energy infrastructure. At this point, we also determine the sub-contractor, what equipment will be used, and assist in arranging for third party financing, as applicable. Historically, awarded projects typically have taken 6 to 12 months to result in a signed contract and thus convert to fully-contracted backlog. It may take longer, however, depending upon the size and complexity of the project. 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.

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As of September 30, 2011, we had backlog of approximately \$438 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 \$782 million. As of September 30, 2010, we had fully-contracted backlog of approximately \$593 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 \$531 million. Fully-contracted backlog decreased 26.1% year-over-year during the third quarter as we experienced a lengthening of the sales cycle when converting awarded projects into signed contracts, or fully-contracted backlog. Even though we have experienced a lengthening of the sales cycle, we have not experienced any unusual cancellations or reductions in project scope. Awarded projects increased 47.5% year-over-year during the third quarter as we experienced an increase in the size and number of projects we were selected for.

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, the sale of such electricity, processed LFG, heat or cooling from plants that we own, and the sale and installation of solar energy products and systems.

During the three months ended September 30, 2010 and for the three and nine months ended September 30, 2011, no customer accounted for more than 10% of our total revenue. For the nine months ended September 30, 2010 one customer, the U.S. Department of Energy, Savannah River Site, accounted for 11.3% 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, 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.

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 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

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continue to increase, 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. Professional services consist principally of recruiting costs, external legal, audit, tax and other consulting services. We expect general and administrative expenses to continue to increase 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.

Other Expenses, net

Other expenses, net consists primarily of interest income on cash balances, interest expense on borrowings and amortization of deferred financing costs, unrealized gains and losses on derivatives not accounted for as hedges, and realized gains on derivatives not accounted for as hedges. Interest expense will vary periodically depending on the amounts drawn on our revolving senior secured credit facility and the prevailing short-term interest rates.

Provision for Income Taxes

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

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. The most significant estimates with regard to these condensed consolidated financial statements relate to estimates of final contract profit in accordance with long-term contracts, project development costs, project assets, impairment of goodwill, impairment of long-lived assets, fair value of derivative financial instruments, income taxes and stock-based compensation expense. Such estimates 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; 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

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

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

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

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

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

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

Project Assets

We capitalize interest costs relating to construction financing during the period of construction. The interest capitalized is included in the total cost of the project at completion. The amount of interest capitalized for the nine months ended September 30, 2010 was \$0.3 million. No interest was capitalized for the three months ended September 30, 2010 or the three and nine months ended September 30, 2011.

Routine maintenance costs are expensed in the current year's condensed consolidated statements of income and comprehensive 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 and administrative expenses in the condensed consolidated statements of income and comprehensive 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

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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, 2010, 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 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 swap covers a 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, 2010 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 consolidated statements of income and comprehensive income at fair value, and in the consolidated statements of comprehensive income (loss) thereafter. Cash flows from these derivative instruments are reported as operating activities on the 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.

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).

With respect to our interest rate swaps that had not been designated as cash flow hedges, until April 2010 no unrealized gains (losses) were recognized during the three months ended September 30, 2010 or the three and nine months ended September 30, 2011. For the nine months ended September 30, 2010 we recognized \$0.1 million as other expenses, net in the condensed consolidated statements of income and comprehensive income.

Business Segments

We report four segments: U.S. federal, central U.S. region, other U.S. regions and Canada. Each segment provides customers with energy efficiency and renewable energy solutions. The other U.S. regions segment is an aggregation of four regions: northeast U.S., southeast U.S., southwest U.S. and northwest U.S. These regions have similar economic characteristics — in particular, expected and actual gross profit margins. In addition, they sell products and services of a similar nature, serve similar types of customers and use similar methods to distribute their products and services. Accordingly, these four regions meet the aggregation criteria set forth in ASC 280. The “all other” category includes activities, such as 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 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, 2010 and 2011

The following table sets forth certain financial data from the condensed consolidated statements of income and comprehensive income, that data expressed as a percentage of revenue and percentage changes in that data for the three months ended September 30, 2011 compared with the same period in 2010:

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(in \$'000s)	Three Months Ended September 30,						% change ((b-a)/a)
	2010 (a)	% of Revenue	2011 (b)	% of Revenue			
Revenue:							
Energy efficiency revenue	\$ 147,863	77.1 %	\$ 188,718	82.8 %		27.6 %	
Renewable energy revenue	44,038	22.9 %	39,085	17.2 %		(11.2 %)	
	191,901	100.0 %	227,803	100.0 %		18.7 %	
Direct expenses:							
Energy efficiency expenses	121,906		155,890			27.9 %	
Renewable energy expenses	35,114		32,058			(8.7 %)	
	157,020	81.8 %	187,948	82.5 %		19.7 %	
Gross profit	34,881	18.2 %	39,855	17.5 %		14.3 %	
Total operating expenses	15,967	8.3 %	23,446	10.3 %		46.8 %	
Operating income	18,914	9.9 %	16,409	7.2 %		(13.2 %)	
Other expenses, net	(2,010)	(1.0 %)	(1,360)	(0.6 %)		32.3 %	
Income before provision for income taxes	16,904	8.9 %	15,049	6.6 %		(11.0 %)	
Income tax provision	(4,863)	(2.6 %)	(2,690)	(1.2 %)		(44.7 %)	
Net income	\$ 12,041	6.3 %	\$ 12,359	5.4 %		2.6 %	

Revenue

The following table sets forth a comparison of our revenue by mix for the three months ended September 30, 2010 and 2011:

(in \$'000s)	Three Months Ended September 30,				% change ((b-a)/a)
	2010 (a)	2011 (b)	\$ change (b-a)		
Revenue:					
Energy efficiency revenue	\$ 147,863	\$ 188,718	\$ 40,855		27.6 %
Renewable energy revenue	44,038	39,085	(4,953)		(11.2 %)
	\$ 191,901	\$ 227,803	\$ 35,902		18.7 %

Total revenue. We derive our revenue primarily from energy efficiency products and services, which accounted for approximately 77.1% and 82.8% of total revenue for the third quarter of 2010 and 2011, respectively. Total revenue increased by \$35.9 million, or 18.7%, from the third quarter of 2010 to the third quarter of 2011 due to higher energy efficiency revenue partially offset by a reduction in renewable energy revenue.

Energy efficiency revenue. Energy efficiency revenue increased by \$40.9 million, or 27.6%, from the third quarter of 2010 to the third quarter of 2011 primarily due to increased installation activity in our other U.S. regions segment.

Energy efficiency revenue for the third quarter of 2011 includes approximately \$11.1 million attributable to our acquisitions of AEG and Ameresco Southwest during the quarter.

Renewable energy revenue. Renewable energy revenue decreased by \$5.0 million, or 11.2%, from the third quarter of 2010 to the third quarter of 2011 primarily due to a decline in revenue from renewable energy installation activity on projects we are undertaking for our customers, including an \$8.0 million decline in revenue from a large facility we are building for a federal customer. This was partially offset by increased revenue from O&M, small scale infrastructure projects and sales of integrated PV equipment and systems, or integrated-PV, as well as approximately \$4.9 million of revenue from installation attributable to our acquisition of Ameresco Southwest during the quarter. We expect renewable energy installation activity to continue to decline in the fourth quarter of 2011 and possibly into the first quarter of 2012 as some of our renewable energy projects for our customers begin nearing completion.

Revenue from customers outside the United States, principally Canada, was \$38.1 million in the third quarter of 2011, compared with 32.7 million in the third quarter of 2010.

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Business Segment Revenue

The following table sets forth a comparison of our business segment revenue for the three months ended September 30, 2010 and 2011:

(in \$'000s)	Three Months Ended September 30,			
	2010 (a)	2011 (b)	\$ change (b-a)	% change ((b-a)/a)
U.S. Federal	\$53,279	\$28,525	\$(24,754)	(46.5)%
Central U.S. Region	37,542	32,206	(5,336)	(14.2)%
Other U.S. Regions	40,486	96,497	56,011	138.3%
Canada	33,466	37,236	3,770	11.3%
All Other	27,128	33,339	6,211	22.9%
Total	\$191,901	\$227,803	\$35,902	18.7%

Total revenue for the U.S. federal segment decreased from the third quarter of 2010 to the third quarter of 2011 by \$24.8 million, or 46.5%, to \$28.5 million primarily due to decreases in revenues from installation activity on ongoing projects, as a number of projects began nearing completion.

Total revenue for the central U.S. region segment decreased from the third quarter of 2010 to the third quarter of 2011 by \$5.3 million, or 14.2%, to \$32.2 million primarily due to a lengthening of the sales cycle, which has resulted in fewer signed contracts to replace installation activity as projects are completed.

Total revenue for the other U.S. regions segment increased from the third quarter of 2010 to the third quarter of 2011 by \$56.0 million, or 138.3%, to \$96.5 million primarily due to an increase in the size and number of projects under construction in the northeast, southeast and northwest, as well as to our acquisition of Ameresco Southwest in the third quarter of 2011.

Total revenue for the Canada segment increased from the third quarter of 2010 to the third quarter of 2011 by \$3.8 million, or 11.3%, to \$37.2 million primarily due to a larger volume of construction activity related to the installation of energy efficiency measures.

Total revenue not allocated to segments and presented as all other increased from the third quarter of 2010 to the third quarter of 2011 by \$6.2 million, or 22.9%, to \$33.3 million due primarily to our recent acquisition of AEG, as well as to increases in revenue from small scale infrastructure, integrated-PV and O&M.

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, 2010 and 2011:

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(in \$'000s)	Three Months Ended September 30,					
	2010 (a)	2011 (b)	\$ change (b-a)	% change ((b-a)/a)		
Revenue:						
Energy efficiency revenue	\$147,863	\$188,718	\$40,855	27.6	%	
Renewable energy revenue	44,038	39,085	(4,953)	(11.2)	%)	
	191,901	227,803	35,902	18.7	%	
Direct expenses:						
Energy efficiency expenses	121,906	155,890	33,984	27.9	%	
Renewable energy expenses	35,114	32,058	(3,056)	(8.7)	%)	
	157,020	187,948	30,928	19.7	%	
Gross profit:	\$34,881	\$39,855	\$4,974	14.3	%	
Energy efficiency gross margin	17.6	% 17.4	%	(0.2)	%)	
Renewable energy gross margin	20.3	% 18.0	%	(2.3)	%)	
Gross profit %	18.2	% 17.5	%	(0.7)	%)	

Total direct expenses. The majority of our expenses are incurred in connection with energy efficiency projects for which expenses represented approximately 82.4% and 82.6% of corresponding revenue for the three months ended September 30, 2010 and 2011, respectively. Total direct expenses increased by \$30.9 million, or 19.7%, from the third quarter of 2010 to the third quarter of 2011 due primarily to increases associated with increased installation activity, as well as approximately \$0.6 million in non-recurring charges related to an O&M agreement and a renewable energy project that we own.

Energy efficiency. Energy efficiency gross margin decreased slightly from 17.6% in the third quarter of 2010 to 17.4% in the third quarter of 2011. The margin in the third quarter of 2010 reflected higher than expected gross profit margins on construction projects. The margin in the third quarter of 2011 reflected margins on construction projects more consistent with our historical average, as well as a portion of the non-recurring charge described in the preceding paragraph.

Renewable energy. Renewable energy gross margin decreased from 20.3% in the third quarter of 2010 to 18.0% in the third quarter of 2011. The gross margin in the third quarter of 2011 decreased primarily due to an increase in direct expenses related to unscheduled maintenance for four LFG facilities that are part of our small scale infrastructure offering. There is also a high margin renewable energy project nearing completion and thus contributing less to renewable energy gross margin. Renewable energy gross margin also was negatively affected by a portion of the non-recurring charge described two paragraphs above and by several lower margin solar installations we acquired with our recent acquisition of Ameresco Southwest.

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, 2010 and 2011:

(in \$'000s)	Three Months Ended September 30,							
	2010 (a)	% of Revenue	2011 (b)	% of Revenue	\$ change (b-a)	% change ((b-a)/a)		
Revenue	\$191,901		\$227,803					
Operating expenses:								
Salaries and benefits	\$8,409	4.4 %	\$10,985	4.8 %	\$2,576	30.6 %		
Project development costs	2,717	1.4 %	5,175	2.3 %	2,458	90.5 %		
General, administrative and other	4,841	2.5 %	7,286	3.2 %	2,445	50.5 %		
	\$15,967	8.3 %	\$23,446	10.3 %	\$7,479	46.8 %		

Salaries and benefits. Salaries and benefits increased by \$2.6 million, or 30.6%, from the third quarter of 2010 to the third quarter of 2011. This was primarily due to additional staff both as a result of the two acquisitions in the third

quarter of 2011 and to support expanded sales and development activity, including continued expansion in the northwest and southeast regions of the U.S.

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Project development costs. Project development costs increased by \$2.5 million, or 90.5%, from the third quarter of 2010 to the third quarter of 2011, reflecting continued efforts relating to increased proposal activities and efforts to convert awarded projects to fully-contracted backlog. We have experienced a lengthening of the conversion time from awarded projects to fully-contracted backlog and as a result have been incurring additional expenses in support of conversion, representing, we believe, an investment in future growth. We expect this trend to continue into 2012. General, administrative and other. General, administrative and other expenses increased by \$2.4 million, or 50.5%, from the third quarter of 2010 to the third quarter of 2011. The increase in the third quarter of 2011 is due to our growth, \$0.5 million in amortization of intangible assets acquired in connection with the two acquisitions completed during the quarter and approximately \$0.5 million in acquisition-related expenses.

Other Expenses, Net

The following table shows the activity in other expenses, net from the third quarter of 2010 to the third quarter of 2011:

(in \$'000s)	Three Months Ended September 30,	
	2010	2011
Interest expense, net of interest income	\$(1,704)	\$(1,253)
Amortization of deferred financing costs	(306)	(107)
	\$(2,010)	\$(1,360)

Other expenses, net in the third quarter of 2010 reflected a termination charge and a write-off of deferred financing fees totaling \$0.7 million in connection with terminating and paying off a term loan of one of our project subsidiaries in the third quarter of 2010. The effect of these payments on the period-over-period change was partially offset by higher average balances on our outstanding borrowings, resulting in higher interest expense.

Income Before Taxes

The following table sets forth a comparison of our income before taxes for the three months ended September 30, 2010 and 2011:

(in \$'000s)	Three Months Ended September 30,			
	2010	2011	\$ change	% change
	(a)	(b)	(b-a)	((b-a)/a)
U.S. Federal	\$8,061	\$2,393	\$(5,668)	(70.3)%
Central U.S. Region	6,436	4,327	(2,109)	(32.8)%
Other U.S. Regions	6,559	17,117	10,558	161.0 %
Canada	2,694	1,277	(1,417)	(52.6)%
All Other	(6,846)	(10,065)	(3,219)	(47.0)%
Total	\$16,904	\$15,049	\$(1,855)	