Ameresco, Inc.
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
OR

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

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

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

(508) 661-2200
(Registrant's Telephone Number, Including Area Code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding as of November 3, 2014
Class A Common Stock, $0.0001 par value per share	28,349,792
Class B Common Stock, $0.0001 par value per share	18,000,000

AMERESCO, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014
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PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
AMERESCO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$23,486	$17,171
Restricted cash	13,542	15,497
Accounts receivable, net	92,728	82,008
Accounts receivable retainage	14,378	21,019
Costs and estimated earnings in excess of billings	53,318	71,204
Inventory, net	9,050	10,257
Prepaid expenses and other current assets	12,932	14,177
Income tax receivable	7,516	3,971
Deferred income taxes	6,224	4,843
Project development costs	11,565	9,686
Total current assets	244,739	249,833
Federal ESPC receivable	65,335	44,297
Property and equipment, net	7,855	8,699
Project assets, net	216,326	210,744
Deferred financing fees, net	4,594	5,320
Goodwill	61,116	53,074
Intangible assets, net	13,014	10,253
Other assets	21,386	22,440
Total assets	$634,365	$604,660
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$13,623	$12,974
Accounts payable	79,787	88,733
Accrued expenses and other current liabilities	23,501	11,947
Billings in excess of cost and estimated earnings	18,968	16,933
Income taxes payable	—	615
Total current liabilities	135,879	131,202
Long-term debt, less current portion	108,449	103,222
Federal ESPC liabilities	64,833	44,297
Deferred income taxes	15,267	11,318
Deferred grant income	8,980	8,163
Other liabilities	19,760	29,652
Commitments and contingencies (Note 6)		

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

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

	September 30, 2014 (Unaudited)	December 31, 2013
Stockholders' equity:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2014 and December 31, 2013	$—	$—
Class A common stock, $0.0001 par value, 500,000,000 shares authorized, 28,349,792 shares issued and outstanding at September 30, 2014, 27,869,317 shares issued and outstanding at December 31, 2013	3	3
Class B common stock, $0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at September 30, 2014 and December 31, 2013	2	2
Additional paid-in capital	108,625	102,587
Retained earnings	172,823	171,094
Accumulated other comprehensive (loss) income, net	(257)	3,112
Non-controlling interest	1	8
Total stockholders' equity	281,197	276,806
Total liabilities and stockholders' equity	$634,365	$604,660

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$168,891	$161,648	$412,180	$398,037
Cost of revenues	133,867	131,585	331,666	323,072
Gross profit	35,024	30,063	80,514	74,965
Selling, general and administrative expenses	25,800	22,482	74,293	71,375
Operating income	9,224	7,581	6,221	3,590
Other expenses, net	2,465	1,588	4,993	2,502
Income before (benefit) provision for income taxes	6,759	5,993	1,228	1,088
Income tax (benefit) provision	(532)	1,448	(501)	248
Net income	$7,291	$4,545	$1,729	$840
Net income per share attributable to common shareholders:				
Basic	$0.16	$0.10	$0.04	$0.02
Diluted	$0.16	$0.10	$0.04	$0.02
Weighted average common shares outstanding:				
Basic	46,315,968	45,621,552	46,098,158	45,472,517
Diluted	46,987,522	46,605,360	46,636,529	46,390,468

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

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

	Three Months Ended September 30,	
	2014	2013
Net income	$7,291	$4,545
Other comprehensive income:		
Unrealized gain from interest rate hedge, net of tax of $4 and $36, respectively	372	90
Foreign currency translation adjustments	(2,018)	1,163
Total other comprehensive (loss) income	(1,646)	1,253
Comprehensive income	$5,645	$5,798

	Nine Months Ended September 30,	
	2014	2013
Net income	$1,729	$840
Other comprehensive (loss) income:		
Unrealized (loss) gain from interest rate hedge, net of tax of $549 and $(720), respectively	(1,432)	2,621
Foreign currency translation adjustments	(1,937)	(384)
Total other comprehensive (loss) income	(3,369)	2,237
Comprehensive (loss) income	$(1,640)	$3,077

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, 2014
(in thousands, except share amounts)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Non-controlling	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Interest	Equity
Balance, December 31, 2013	27,869,317	$ 3	18,000,000	$ 2	$ 102,587	$ 171,094	$ 3,112	$ 8	$ 276,806
Exercise of stock options	480,475	—	—	—	1,434	—	—	—	1,434
Stock-based compensation expense, including excess tax benefits of $2,496	—	—	—	—	4,604	—	—	—	4,604
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	(1,432)	—	(1,432)
Foreign currency translation adjustment	—	—	—	—	—	—	(1,937)	—	(1,937)
Non-controlling interest	—	—	—	—	—	—	—	(7)	(7)
Net income	—	—	—	—	—	1,729	—	—	1,729
Balance, September 30, 2014	28,349,792	$ 3	18,000,000	$ 2	$ 108,625	$ 172,823	$ (257)	$ 1	$ 281,197

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

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

	Nine Months Ended September 30, 2014	2013 (Revised, see Note 2)
Cash flows from operating activities:		
Net income	$1,729	$840
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation of project assets	11,162	9,782
Depreciation of property and equipment	2,495	2,466
Amortization of deferred financing fees	1,086	851
Amortization of intangible assets	3,266	3,257
Provision for bad debts	1,253	509
Gain on sale of assets	—	(632)
Unrealized gain on interest rate swaps	(983)	(1,378)
Stock-based compensation expense	2,108	2,125
Deferred income taxes	3,343	(3,554)
Excess tax benefits from stock-based compensation arrangements	(2,496)	(418)
Changes in operating assets and liabilities:		
Restricted cash	(182)	(1,182)
Accounts receivable	(11,282)	4,749
Accounts receivable retainage	6,392	(1,610)
Federal ESPC receivable	(33,388)	(24,318)
Inventory	1,172	754
Costs and estimated earnings in excess of billings	17,768	(1,421)
Prepaid expenses and other current assets	1,266	(595)
Project development costs	(812)	(2,843)
Other assets	(3,676)	(2,598)
Accounts payable, accrued expenses and other current liabilities	(3,754)	(25,354)
Billings in excess of cost and estimated earnings	1,403	(6,704)
Other liabilities	(5,815)	2,378
Income taxes payable	(4,148)	(417)
Cash flows from operating activities	(12,093)	(45,313)
Cash flows from investing activities:		
Purchases of property and equipment	(1,553)	(2,331)
Purchases of project assets	(16,530)	(35,755)
Grant awards received on project assets	3,727	1,580
Proceeds from sale of assets	—	3,510
Acquisitions, net of cash received	(13,903)	(9,945)
Cash flows from investing activities	$(28,259)	$(42,941)

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

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

	Nine Months Ended September 30,	
	2014	2013 (Revised, see Note 2)
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation arrangements	$2,496	$418
Payments of financing fees	(368)	(505)
Proceeds from exercises of options	1,435	1,676
Proceeds from senior secured credit facility	20,000	18,000
Proceeds from long-term debt financing	—	9,434
Proceeds from Federal ESPC projects	32,886	21,383
Non-controlling interest	(7)	31
Restricted cash	2,758	1,270
Payments on long-term debt	(13,881)	(8,385)
Cash flows from financing activities	45,319	43,322
Effect of exchange rate changes on cash	1,348	374
Net increase (decrease) in cash and cash equivalents	6,315	(44,558)
Cash and cash equivalents, beginning of period	17,171	63,348
Cash and cash equivalents, end of period	$23,486	$18,790
Supplemental disclosures of cash flow information:		
Cash paid for interest	$4,999	$4,881
Cash paid for income taxes	$2,650	$3,350
Non-cash Federal ESPC settlement	$12,350	$88,556
Accrued purchases of project assets	$7,319	$2,952

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

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

1. DESCRIPTION OF BUSINESS

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

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

The condensed consolidated financial statements as of September 30, 2014, and for the nine months ended September 30, 2014 and 2013, are unaudited. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted. The interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation in conformity with GAAP. The interim condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 17, 2014. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

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

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

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

	Nine Months Ended September 30, 2013		
	As Reported	Adjustment	Revised
Cash flows from operating activities	$(15,112)	$(30,201)	$(45,313)
Cash flows from investing activities	$(42,941)	$—	$(42,941)
Cash flows from financing activities	$13,121	$30,201	$43,322

Principles of Consolidation

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

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

Use of Estimates

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

The Company is self-insured for employee health insurance. The maximum exposure in fiscal year 2014 under the plan is $75 per covered participant, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported claims, is determined by management and reflected in the Company’s consolidated balance sheets in accrued expenses and other current liabilities. The liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company’s estimated accrual for this liability could be different than its ultimate obligation if variables such as the frequency or amount of future claims differ significantly from management’s assumptions.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists of cash held in an escrow account in association with construction draws for ESPCs, construction of project assets, operating and maintenance reserve accounts and cash collateralized letters of credit as well as cash required under term loans to be maintained in debt service reserve accounts until all obligations have been indefeasibly paid in full. Restricted cash also includes funds held for clients, which represent assets that, based upon the Company’s intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds to third parties, primarily utility service providers, relating to the Company’s enterprise energy management services.

Accounts Receivable

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

Changes in the allowance for doubtful accounts are as follows:

	Nine Months Ended September 30,	
	2014	2013
Allowance for doubtful accounts, beginning of period	$1,519	$1,174
Charges to costs and expenses	1,253	509
Account write-offs and other	(674)	(63)
Allowance for doubtful accounts, end of period	$2,098	$1,620

Accounts Receivable Retainage

Accounts receivable retainage represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from 5% to 10% of the total invoice.

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(in thousands, except share and per share amounts)

Inventory

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

Prepaid Expenses

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

Federal ESPC Receivable

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

Project Development Costs

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

Property and Equipment

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

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

Project Assets

Project assets consist of costs of materials, direct labor, interest costs, outside contract services and project development costs incurred in connection with the construction of small-scale renewable energy plants that the Company owns and the implementation of energy savings contracts. These amounts are capitalized and amortized 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. There was no interest capitalized for the three months ended September 30, 2014. There was $596 of interest capitalized for the three months ended September 30, 2013. The amount of interest capitalized for the nine months ended September 30, 2014 and 2013 was $395 and $1,311, respectively.

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

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

From time to time, the Company applies for and receives cash grant awards from the U.S. Treasury Department (the "Treasury") under Section 1603 of the American Recovery and Reinvestment Act of 2009 (the "Act"). The Act authorized the Treasury to make payments to eligible persons who place in service qualifying renewable energy projects. The grants are paid in lieu of investment tax credits. All of the cash proceeds from the grants were used and recorded as a reduction in the cost basis of the applicable project assets. If the Company disposes of the property, or the property ceases to qualify as specified energy property, within five years from the date the property is placed in service, then a prorated portion of the Section 1603 payment must be repaid.

The Company did not receive any Section 1603 grants during the three months ended September 30, 2014 and 2013. The Company received $3,727 and $1,580 in Section 1603 grants during the nine months ended September 30, 2014 and 2013, respectively.

For tax purposes, the Section 1603 payments are not included in Federal and certain state taxable income and the basis of the property is reduced by 50% of the payment received. Deferred grant income of $8,980 and $8,163 recorded in the accompanying consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively, represents the benefit of the basis difference to be amortized to income tax expense over the life of the related property.

Deferred Financing Fees

Deferred financing fees relate to the external costs incurred to obtain financing for the Company. Deferred financing fees are amortized over the respective term of the financing using the effective interest method, with the exception of the Company's revolving credit facility, as discussed in Note 10, for which deferred financing fees are amortized on a straight line basis over the term of the agreement.

Goodwill and Intangible Assets

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

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

Other Assets

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

Asset Retirement Obligations

The Company recognizes a liability for the fair value of required asset retirement obligations (“AROs”) when such obligations are incurred. The liability is estimated on a number of assumptions requiring management’s judgment, including equipment removal costs, site restoration costs, salvage costs, cost inflation rates and discount rates and is credited to its projected future value over time. The capitalized asset is depreciated using the convention of depreciation of plant assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement cost incurred is recognized as an operating gain or loss in the consolidated statements of income (loss). As of September 30, 2014 and December 31, 2013, the Company had no AROs.

Federal ESPC Liabilities

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

Other Liabilities

Other liabilities consist primarily of deferred revenue related to multi-year operation and maintenance contracts which expire as late as 2031. Other liabilities also include the fair value of interest rate swaps. See Note 8 for additional disclosures.

Revenue Recognition

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

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

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

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

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

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

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

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

Cost of Revenues

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

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

Income Taxes

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

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

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

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

Foreign Currency

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

Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses, equity-based liabilities, short- and long-term debt and interest rate swaps. The estimated fair value of cash and cash equivalents, restricted cash, accounts and notes receivable, long-term contract receivables, accounts payable, accrued expenses and equity-based liabilities approximates their carrying value. See below and Note 7 for additional information regarding the Company’s fair value measurements.

Fair Value Measurements

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

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Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term debt approximate fair value. The carrying value of long-term variable-rate debt approximates fair value. As of September 30, 2014, the fair value of the Company's fixed-rate long-term debt exceeds its carrying value by approximately $48. Fair value of the Company's debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

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

See Note 7 for additional information related to fair value measurements.

Stock-Based Compensation Expense

Stock-based compensation expense results from the issuance of shares of restricted common stock and grants of stock options to employees, directors, outside consultants and others. The Company recognizes the costs associated with restricted stock and option grants using the fair value recognition provisions of ASC 718, Compensation - Stock Compensation on a straight-line basis over the vesting period of the awards.

Stock-based compensation expense is recognized based on the grant-date fair value. The Company estimates the fair value of the stock-based awards, including stock options, using the Black-Scholes option-pricing model. Determining the fair value of stock-based awards requires the use of highly subjective assumptions, including the fair value of the common stock underlying the award, the expected term of the award and expected stock price volatility.

The assumptions used in determining the fair value of stock-based awards represent management's estimates, which involve inherent uncertainties and the application of management judgment. As a result, if factors change, and different assumptions are employed, the stock-based compensation could be materially different in the future. The risk-free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant, with maturities approximating the expected life of the stock options.

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

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

For the three months ended September 30, 2014 and 2013, the Company recorded stock-based compensation expense of $683 and $789, respectively, in connection with stock-based payment awards. For the nine months ended September 30, 2014 and 2013, the Company recorded stock-based compensation expense of $2,108 and $2,125, respectively, in connection with stock-based payment awards. The compensation expense is allocated between cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of income (loss) based on the salaries and work assignments of the employees holding the options. As of September 30, 2014, there was $4,166 of unrecognized compensation expense related to non-vested stock option awards that is expected to be recognized over a weighted-average period of 2.9 years.

The Company also accounts for equity instruments issued to non-employee directors and consultants at fair value. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is complete. No awards to individuals who were not either an employee or director of the Company occurred during the nine months ended September 30, 2014 or during the year ended December 31, 2013.

Derivative Financial Instruments

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

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

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

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

In March 2010, the Company entered into a fourteen-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of approximately $27,900 variable rate note at a fixed interest rate of 6.99% and expires in December 2024. This swap was designated as a hedge in March 2013. During the second quarter of 2014 this swap was de-designated and re-designated as a hedge as a result of a partial pay down of the associated hedged debt principal. As a result $566 was reclassified from accumulated other comprehensive income and recorded as a reduction to other expenses, net in the Company's consolidated statements of income (loss) during the second quarter of 2014.

In July 2011, the Company entered into a five-year interest rate swap contract under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional amount, and to in turn receive an amount equal to a specified variable rate of interest times the same notional principal amount. The swap covers an initial notional amount of $38,571 variable rate note at a fixed interest rate of 1.965% and expires in June 2016. This interest rate swap has been designated as a hedge since inception.

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

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

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See Notes 7 and 8 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,	
	2014	2013	2014	2013
Net income	$7,291	$4,545	$1,729	$840
Basic weighted-average shares outstanding	46,315,968	45,621,552	46,098,158	45,472,517
Effect of dilutive securities:				
Stock options	671,554	983,808	538,371	917,951
Diluted weighted-average shares outstanding	46,987,522	46,605,360	46,636,529	46,390,468

For the three months ended September 30, 2014 and 2013, the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares, as the effect would be anti-dilutive, was 2,158,312 and 1,813,431, respectively. For the nine months ended September 30, 2014 and 2013, the total number of shares of common stock related to stock options excluded from the calculation of dilutive shares, as the effect would be anti-dilutive, was 2,158,312 and 1,813,431, respectively.

Variable Interest Entities

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

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

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

Recent Accounting Pronouncements

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

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

3. BUSINESS ACQUISITIONS AND RELATED TRANSACTIONS

The Company accounts for acquisitions in accordance with ASC 805, Business Combinations. The purchase price for each has been allocated to the assets based on their estimated fair values at the date of each acquisition. The excess purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill. Intangible assets identified have been recorded and are being amortized over periods ranging from one to fifteen years. See Note 4 for additional information. The unaudited pro forma results of operations for the current and prior periods are not presented due to the insignificant impact of the 2014 acquisitions on the Company's consolidated results of operations.

In August 2014, the Company acquired the energy consultancy and energy project management business of Energyexcel LLP ("EEX"), an independent energy services provider located in Central London, UK. The Company paid $9,054 to acquire substantially all of the assets of EEX. The purchase price is subject to post-closing adjustments for working capital and for certain indemnity obligations of the seller and its owners. The Company deposited approximately $834 of the initial cash payment with a third-party escrow agent as security for these matters.

A summary of the consideration paid and the preliminary allocation of the purchase price paid for EEX is as follows:

	Acquisition Purchase Price Allocation
Accounts receivable	$1,432
Costs and estimated earnings in excess of billings	186
Prepaid expenses and other current assets	156
Property and equipment	123
Goodwill	5,154
Intangible assets	4,830
Accounts payable	(1,064)
Accrued liabilities	(1,103)
Billings in excess of cost and estimated earnings	(648)
Deferred taxes and other liabilities	(12)
Purchase price	$9,054

The allocation of the purchase price for current year acquisitions are preliminary, based on management's current best estimates and subject to revision.

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4. GOODWILL AND INTANGIBLE ASSETS

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

	U.S. Regions	U.S. Federal	Canada	Small-Scale Infrastructure	Other	Total
Balance, December 31, 2013	$24,759	$3,375	$4,124	$ —	$20,816	$53,074
Goodwill acquired during the year	—	—	—	—	7,729	7,729
Fair value adjustment(1)	—	—	—	—	641	641
Currency effects	—	—	(208)	—	(120)	(328)
Balance, September 30, 2014	$24,759	$3,375	$3,916	$ —	$29,066	$61,116
Accumulated Goodwill Impairment Balance, December 31, 2013	$—	$—	$(1,016)	$ —	$—	$(1,016)
Accumulated Goodwill Impairment Balance, September 30, 2014	$—	$—	$(1,016)	$ —	$—	$(1,016)

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

Separable intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. The Company annually assesses whether a change in the life over which the Company’s assets are amortized is necessary, or more frequently if events or circumstances warrant. No changes to useful lives were made during the nine months ended September 30, 2014 or for the year ended December 31, 2013.

Acquired intangible assets other than goodwill that are subject to amortization include customer contracts, customer relationships, non-compete agreements, technology and trade names. Customer contracts are amortized ratably over the period of the acquired customer contracts ranging in periods from approximately one to five years. All other acquired intangible assets are amortized over periods ranging from approximately four to fifteen years, as defined by the nature of the respective intangible asset. Intangible assets acquired during the nine months ended September 30, 2014 consisted of customer contracts, customer relationships, non-compete assets and technology which were assigned a weighted average useful life of 8.2 years.

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

	As of September 30, 2014	As of December 31, 2013
Gross Carrying Amount		
Customer contracts	$8,220	$7,684
Customer relationships	13,045	8,200
Non-compete agreements	3,447	3,230
Technology	2,815	2,386
Trade names	553	556
	28,080	22,056
Accumulated Amortization		
Customer contracts	6,431	5,349
Customer relationships	4,045	2,923
Non-compete agreements	2,530	1,872

Technology	1,640	1,299
Trade names	420	360
	15,066	11,803
Intangible assets, net	$13,014	$10,253

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Amortization expense related to customer contracts is included in cost of revenues in the consolidated statements of income (loss). Amortization expense related to all other acquired intangible assets is included in selling, general and administrative expenses in the consolidated statements of income (loss). Amortization expense for the three months ended September 30, 2014 and 2013 related to customer contracts was $513 and $499, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 related to customer contracts was $1,127 and $953, respectively. Amortization expense for the three months ended September 30, 2014 and 2013 related to all other acquired intangible assets was $875 and $969, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 related to all other acquired intangible assets was $2,139 and $2,304, respectively.

5. INCOME TAXES

The (benefit) provision for income taxes was $(532) and $1,448, for the three months ended September 30, 2014 and 2013, respectively. The (benefit) provision for income taxes was $(501) and $248, for the nine months ended September 30, 2014 and 2013, respectively. The estimated 2014 effective tax rate was (7.9)% for the three months ended September 30, 2014 compared to a 24.2% estimated annual effective tax rate for the three months ended September 30, 2013. For the nine months ended September 30, 2014 the estimated 2014 effective tax rate was (40.8)% compared to a 22.8% estimated annual effective tax rate for the nine months ended September 30, 2013.

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

	Gross Unrecognized Tax Benefits
Balance, December 31, 2013	$9,200
Additions for prior year tax positions	—
Settlements with tax authorities	(4,100)
Reductions of prior year tax positions	—
Balance, September 30, 2014	$5,100

At September 30, 2014 and December 31, 2013, the Company had approximately $5,100 and $9,200, respectively, of total gross unrecognized tax benefits. Of the total gross unrecognized tax benefits as of September 30, 2014 and December 31, 2013, approximately $3,700 and $5,500, respectively, (net of the Federal benefit on state amounts) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

6. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Solar Tariff Contingency

In October 2012, the U.S. Department of Commerce (“Commerce”) announced its final determination in the anti-dumping and countervailing duty investigations of imports of solar cells manufactured in the People’s Republic of China (“PRC”), including solar modules containing such cells. Commerce’s final determination confirmed its previously published anti-dumping duty of 249.96%, in the case of the Company, and increased its countervailing duty from 3.61% to 15.24%; both duties are applied to the value of imports of solar modules containing PRC cells. Under Commerce’s determination, the anti-dumping and countervailing duties both were to apply retroactively 90 days from the date each preliminary decision was published to February 25, 2012 and December 21, 2011, respectively. On November 7, 2012, the International Trade Commission announced its final determination upholding the duties, but eliminating the retroactive periods. Since early 2012, the Company has been importing solar modules containing PRC cells, though it ceased doing so in July 2012 in response to these duties. In April 2014, the Company's manufacturer filed an application for a separate and reduced anti-dumping duty. During the third quarter of 2014, the Company paid countervailing duties on all covered shipments at the 3.61% rate. Depending on whether the maximum anti-dumping duty rate of 249.96% or some lower rate applies, the Company may be liable for anti-dumping duties of up to approximately $2,900.

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

Commitments as a Result of Acquisitions

Related to the Company's acquisition of EEX in the second quarter of 2014 (see Note 3), the former owners of EEX, who are now employees of the Company, may be entitled to receive up to 4.5 million British pounds sterling in additional consideration, accounted for as compensation for post-combination services, if the acquired business meets certain financial performance milestones through December 31, 2018.

7. FAIR VALUE MEASUREMENT

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

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

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

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

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

	Level	Fair Value as of September 30, 2014	December 31, 2013
Assets:			
Interest rate swap instruments	2	$165	$1,553
Liabilities:			
Interest rate swap instruments	2	$3,595	$4,268

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

The fair value of financial instruments is determined by reference to observable market data and other valuation techniques as appropriate. The only category of financial instruments where the difference between fair value and recorded book value is notable is long-term debt. At September 30, 2014, the fair value of the Company’s long-term debt was estimated using discounted cash flows analysis, based on quoted market prices or on rates available to the Company for debt with similar terms and maturities, which are considered to be level two inputs. There were no transfers in or out of level two for the nine months ended September 30, 2014. Based on the analysis performed, the fair value and the carrying value of the Company’s long-term debt are as follows:

	As of September 30, 2014		As of December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt value	$122,120	$122,072	$114,776	$116,196

The Company is also required periodically to measure certain other assets at fair value on a nonrecurring basis, including long-lived assets, goodwill and other intangible assets. The Company determined the fair value used in its annual impairment analysis with its own discounted cash flow analysis. The Company has determined the inputs used in such analysis as Level 3 inputs. The Company did not record any impairment charges on goodwill or other intangible assets as no significant events

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requiring non-financial assets and liabilities to be measured at fair value occurred for the nine months ended September 30, 2014.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

	Derivatives as of September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Other assets	$165	Other assets	$1,553
Interest rate swap contracts	Other liabilities	$3,595	Other liabilities	$4,268

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

	Location of (Gain) Loss Recognized in Income (Loss)	Amount of (Gain) Loss Recognized in Income (Loss)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Derivatives Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	$(69)	$(125)	$(1,266)	$(1,112)
Derivatives Not Designated as Hedging Instruments:					
Interest rate swap contracts	Other expenses, net	$—	$—	$—	$(266)

	Nine Months Ended September 30, 2014	
	Loss Recognized in Accumulated Other Comprehensive (Loss) Income, Net	Interest Expense Reclassified from Accumulated Other Comprehensive (Loss) Income, Net into Other Expenses, Net
Derivatives Designated as Hedging Instruments:		
Interest rate swap contracts	$1,981	$786

9. BUSINESS SEGMENT INFORMATION

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

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

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

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

U.S.
Regions