

Hannon Armstrong Sustainable Infrastructure Capital, Inc.  
Form 10-Q  
August 04, 2016  
**Table of Contents**

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

**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 001-35877**

**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.**

**(Exact name of registrant as specified in its charter)**

**Maryland**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**46-1347456**  
**(I.R.S. Employer**  
**Identification No.)**

**1906 Towne Centre Blvd, Suite 370 Annapolis,**

**Maryland**  
**(Address of principal executive offices)**

**21401**  
**(Zip code)**

**(410) 571-9860**

**(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

Edgar Filing: Hannon Armstrong Sustainable Infrastructure Capital, Inc. - Form 10-Q

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 43,309,186 shares of common stock, par value \$0.01 per share, outstanding as of August 3, 2016 (which includes 1,323,210 shares of unvested restricted common stock).

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this Quarterly Report on Form 10-Q ( Form 10-Q ) within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ) that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, we intend to identify forward-looking statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements are contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (our 2015 Form 10-K ) that was filed with the U.S. Securities and Exchange Commission (the SEC ), and include risks discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operation of this Form 10-Q and in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

our expected returns and performance of our investments;

the state of government legislation, regulation and policies that support energy efficiency, renewable energy and sustainable infrastructure projects and that enhance the economic feasibility of energy efficiency, renewable energy and sustainable infrastructure projects and the general market demands for such projects;

market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;

our business and investment strategy;

availability of opportunities to finance energy efficiency, renewable energy and sustainable infrastructure projects and our ability to complete potential new opportunities in our pipeline;

our relationships with originators, investors, market intermediaries and professional advisers;

competition from other providers of financing;

our or any other companies' projected operating results;

actions and initiatives of the U.S. federal, state and local governments and changes to U.S. federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;

the state of the U.S. economy generally or in specific geographic regions, states or municipalities; economic trends and economic recoveries;

our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;

general volatility of the securities markets in which we participate;

changes in the value of our assets, our portfolio of assets and our investment and underwriting process;

interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;

changes in interest rates and the market value of our assets and target assets;

changes in commodity prices;

**Table of Contents**

effects of hedging instruments on our assets;

rates of default or decreased recovery rates on our assets;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

impact of and changes in accounting guidance and similar matters;

our ability to maintain our qualification, as a real estate investment trust for U.S. federal income tax purposes (a REIT );

our ability to maintain our exception from registration under the Investment Company Act of 1940, as amended (the 1940 Act );

availability of qualified personnel;

estimates relating to our ability to make distributions to our stockholders in the future; and

our understanding of our competition.

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this Form 10-Q or our 2015 Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The following discussion is a supplement to and should be read in conjunction with our 2015 Form 10-K.

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<u>PART 1 FINANCIAL INFORMATION</u>	1
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	40
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults Upon Senior Securities</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41
<u>SIGNATURES</u>	42

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF JUNE 30, 2016 and DECEMBER 31, 2015****(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)****(UNAUDITED)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Financing receivables	\$ 804,005	\$ 783,967
Financing receivables held-for-sale	42,285	60,376
Investments available-for-sale	47,662	29,017
Real estate	131,713	128,769
Real estate related intangible assets	30,720	26,930
Equity method investments in affiliates	334,565	318,769
Cash and cash equivalents	19,279	42,645
Other assets	65,909	79,148
<b>Total Assets</b>	<b>\$ 1,476,138</b>	<b>\$ 1,469,621</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Accounts payable, accrued expenses and other	\$ 26,165	\$ 17,875
Deferred funding obligations	78,127	108,499
Credit facility	245,572	247,350
Nonrecourse debt (secured by assets of \$779 million and \$815 million, respectively)	624,043	663,791
<b>Total Liabilities</b>	<b>973,907</b>	<b>1,037,515</b>
<b>Stockholders Equity:</b>		
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized, 41,985,976 and 37,010,603 shares issued and outstanding, respectively	420	370
Additional paid in capital	576,041	482,431
Retained deficit	(71,200)	(52,701)
Accumulated other comprehensive loss	(6,821)	(1,905)
Non-controlling interest	3,791	3,911



Total Stockholders Equity	502,231	432,106
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,476,138</b>	<b>\$ 1,469,621</b>

*See accompanying notes.*

- 1 -

Table of Contents**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)****(UNAUDITED)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Interest income, financing receivables	\$ 12,647	\$ 8,217	\$ 24,135	\$ 16,545
Interest income, investments	434	357	809	753
Rental income	2,975	2,564	5,791	4,652
Gain on sale of receivables and investments	5,438	1,557	10,940	4,426
Fee income	351	836	653	1,063
<b>Total Revenue</b>	<b>21,845</b>	<b>13,531</b>	<b>42,328</b>	<b>27,439</b>
Expenses:				
Investment interest expense	(11,034)	(6,103)	(22,310)	(12,250)
Compensation and benefits	(5,754)	(3,978)	(10,172)	(7,830)
General and administrative	(2,322)	(1,595)	(4,138)	(3,327)
<b>Total Expenses</b>	<b>(19,110)</b>	<b>(11,676)</b>	<b>(36,620)</b>	<b>(23,407)</b>
<b>Income before equity method investments in affiliates</b>	<b>2,735</b>	<b>1,855</b>	<b>5,708</b>	<b>4,032</b>
Income (loss) from equity method investments in affiliates	1,076	(295)	1,346	(348)
<b>Income before income taxes</b>	<b>3,811</b>	<b>1,560</b>	<b>7,054</b>	<b>3,684</b>
Income tax expense	(36)	(76)	(82)	(53)
<b>Net Income</b>	<b>\$ 3,775</b>	<b>\$ 1,484</b>	<b>\$ 6,972</b>	<b>\$ 3,631</b>
Net income attributable to non-controlling interest holders	28	14	56	39
<b>Net Income Attributable to Controlling Shareholders</b>	<b>\$ 3,747</b>	<b>\$ 1,470</b>	<b>\$ 6,916</b>	<b>\$ 3,592</b>
Basic earnings per common share	\$ 0.09	\$ 0.04	\$ 0.16	\$ 0.10
Diluted earnings per common share	\$ 0.09	\$ 0.04	\$ 0.16	\$ 0.10

Weighted average common shares outstanding basic	37,737,026	29,479,023	37,376,618	27,941,095
Weighted average common shares outstanding diluted	37,737,026	29,479,023	37,376,618	27,941,095

*See accompanying notes.*

- 2 -

Table of Contents

**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(DOLLARS IN THOUSANDS)**  
**(UNAUDITED)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net Income	\$ 3,775	\$ 1,484	\$ 6,972	\$ 3,631
Unrealized loss on interest rate swaps, net of taxes of \$0.0 million in 2016	(2,434)		(5,916)	
Unrealized gain/(loss) on available-for-sale securities, net of taxes benefit/(provision) of \$0.0 million and \$0.2 million in each of the three and six months periods ended 2016 and 2015, respectively	691	(573)	962	(492)
Comprehensive income	\$ 2,032	\$ 911	\$ 2,018	\$ 3,139
Less: Comprehensive income attributable to non-controlling interests holders	19	8	19	34
<b>Comprehensive Income Attributable to Controlling Shareholders</b>	<b>\$ 2,013</b>	<b>\$ 903</b>	<b>\$ 1,999</b>	<b>\$ 3,105</b>

*See accompanying notes.*

**Table of Contents****HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(DOLLARS IN THOUSANDS)****(UNAUDITED)**

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 6,972	\$ 3,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,573	1,561
Equity-based compensation	4,920	5,026
From equity method investments in affiliates	412	348
Gain on sale of financing receivables and investments	(8,461)	(4,763)
Changes in financing receivables held-for-sale	5,382	14,862
Changes in accounts payable and accrued expenses	2,718	(424)
Other	(5,439)	(4,578)
<b>Net cash provided by operating activities</b>	<b>10,077</b>	<b>15,663</b>
<b>Cash flows from investing activities</b>		
Purchases of financing receivables	(106,874)	(185,643)
Principal collections from financing receivables	57,469	50,358
Proceeds from sales of financing receivables	29,032	36,454
Purchases of investments	(23,333)	(20,486)
Principal collections from investments	857	8,586
Proceeds from sales of investments	13,914	10,794
Purchases of real estate	(7,345)	(38,513)
Investments in equity method affiliates, net	(10,706)	(32,735)
Distributions received from equity method affiliates	27,903	14,642
Other	10,444	(1,314)
<b>Net cash used in investing activities</b>	<b>(8,639)</b>	<b>(157,857)</b>
<b>Cash flows from financing activities</b>		
Proceeds from credit facility	117,400	175,521
Principal payments on credit facility	(119,146)	(70,860)
Proceeds from nonrecourse debt		11,626
Principal payments on nonrecourse debt	(41,429)	(25,430)
Payments on deferred funding obligations	(43,414)	(50,786)
Net proceeds of common stock issuances	91,516	81,540
Payments of dividends and distributions	(23,321)	(14,538)
Other	(6,410)	(1,408)

Net cash (used in) provided by financing activities	(24,804)	105,665
Decrease in cash and cash equivalents	(23,366)	(36,529)
Cash and cash equivalents at beginning of period	42,645	58,199
<b>Cash and cash equivalents at end of period</b>	<b>\$ 19,279</b>	<b>\$ 21,670</b>
Interest paid	\$ 19,396	\$ 12,831

*See accompanying notes.*

- 4 -

**Table of Contents**

**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**June 30, 2016**

**1. The Company**

Hannon Armstrong Sustainable Infrastructure Capital, Inc. ( the Company ) provides debt and equity to the energy efficiency and renewable energy markets. The Company and its subsidiaries are hereafter referred to as we, us, or our. We refer to the financings that we hold on our balance sheet as our Portfolio. Our Portfolio may include:

Financing Receivables, such as project loans, receivables and direct financing leases,

Investments, such as debt and equity securities,

Real Estate, such as land or other physical assets and related intangible assets used in renewable energy projects, and

Equity Investments in unconsolidated affiliates, such as projects where we hold non-consolidated equity interests in renewable energy projects.

We finance our business through cash on hand, borrowings under our credit facility and debt transactions, and various asset-backed securitization transactions and equity issuances. We also generate fee income through asset-backed securitizations, by providing broker/dealer services and by servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with financing sustainable infrastructure receivables for specific long term contracts.

Our common stock is listed on the New York Stock Exchange ( NYSE ) under the symbol HASI. We have qualified as a REIT and also intend to operate our business in a manner that will continue to permit us to maintain our exception from registration as an investment company under the Investment Company Act of 1940, as amended. We operate our business through, and serve as the sole general partner of, our operating partnership subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P, (the Operating Partnership ), which was formed to acquire and directly or indirectly own our assets.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The condensed consolidated financial statements reflect all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows for the periods presented. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Certain amounts in the prior year have been reclassified to conform to the current year presentation, including the format of the revenue section of the income statement to include a calculation of Total Revenue.

The condensed consolidated financial statements include the accounts of the Company and its controlled subsidiaries, including the Operating Partnership. All significant intercompany transactions and balances have been eliminated in consolidation.



## **Table of Contents**

Following the guidance for non-controlling interests in Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 810, Consolidation, references in this report to our earnings per share and our net income and shareholders' equity attributable to common shareholders do not include amounts attributable to non-controlling interests.

### ***Financing Receivables***

Financing receivables include financing energy efficiency and renewable energy project loans, receivables and direct financing leases.

Unless otherwise noted, we generally have the ability and intent to hold our financing receivables for the foreseeable future and thus they are classified as held for investment. Our ability and intent to hold certain financing receivables may change from time to time depending on a number of factors, including economic, liquidity and capital market conditions. The carrying value of financing receivables held for investment represents the present value of the note, lease or other payments, net of any unearned fee income, which is recognized as income over the term of the note or lease using the effective interest method. Financing receivables that are held for investment are carried, unless deemed impaired, at cost, net of any unamortized acquisition premiums or discounts and include origination and acquisition costs, as applicable. Financing receivables that we intend to sell in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value on our balance sheet. The net purchases and proceeds from these sales of our held-for-sale financing receivables are recorded as an operating activity in our statement of cash flows based on our intent at the time of purchase. We may secure nonrecourse debt with the proceeds from our financing receivables. We evaluate any modifications of financing receivables to determine whether the modification is a minor modification in accordance with the guidance in ASC 310, Receivables.

We evaluate our financing receivables for potential delinquency or impairment on at least a quarterly basis and more frequently when economic or other conditions warrant such an evaluation. When a financing receivable becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally consider the financing receivable delinquent or impaired and place the financing receivable on non-accrual status and cease recognizing income from that financing receivable until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a financing receivable's status significantly improves regarding the debtor's ability to service the debt or other obligations, we will remove it from non-accrual status.

A financing receivable is also considered impaired as of the date when, based on current information and events, it is determined that it is probable that we will be unable to collect all amounts due in accordance with the original contracted terms. Many of our financing receivables are secured by energy efficiency and renewable energy infrastructure projects. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and value of the underlying project, as well as the financial and operating capability of the borrower, its sponsors or the obligor as well as any guarantors. We consider a number of qualitative and quantitative factors in our assessment, including, as appropriate, a project's operating results, loan-to-value ratios and any cash reserves, the ability of expected cash from operations to cover the cash flow requirements currently and into the future, key terms of the transaction, the ability of the borrower to refinance the transaction, other credit support from the sponsor or guarantor and the project's collateral value. In addition, we consider the overall economic environment, the sustainable infrastructure sector, the effect of local, industry, and broader economic factors, the impact of any variation in weather and the historical and anticipated trends in interest rates, defaults and loss severities for similar transactions.

If a financing receivable is considered to be impaired, we record an allowance to reduce the carrying value of the financing receivable to the present value of expected future cash flows discounted at the financing receivable's contractual effective rate or the amount realizable from other contractual terms such as the currently estimated fair market value of the collateral less estimated selling costs, if repayment is expected solely from the collateral. We charge off financing receivables against the allowance when we

## **Table of Contents**

determine the unpaid principal balance is uncollectible, net of recovered amounts.

### ***Investments***

Investments include debt securities that meet the criteria of ASC 320, Investments Debt and Equity Securities. We have designated our debt securities as available-for-sale and carry these securities at fair value on our balance sheet. Unrealized gains and losses, to the extent not considered other than temporary impairment ( OTTI ), on available-for-sale debt securities are recorded as a component of accumulated other comprehensive income ( OCI ) in equity on our balance sheet.

We evaluate our investments for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the financial and operating performance and value of the underlying project. We consider a number of qualitative and quantitative factors in our assessment. We first consider the current fair value of the security and the duration of any unrealized loss. Other factors considered include changes in the credit rating, performance of the underlying project, key terms of the transaction, the value of any collateral and any support provided by the sponsor or guarantor.

To the extent that we have identified an OTTI for a security and intend to hold the investment to maturity and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. We determine the credit component using the difference between the securities amortized cost basis and the present value of its expected future cash flows, discounted using the effective interest method or its estimated collateral value. Any remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated OCI.

To the extent we hold investments with an OTTI and if we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings.

Premiums or discounts on investment securities are amortized or accreted into investment interest income using the effective interest method.

### ***Real Estate***

Real estate reflects land or other real estate held on our balance sheet. Real estate intangibles reflect the value of associated lease intangibles, net of any amortization. In accordance with ASC 805, *Business Combinations*, the fair value of the real estate acquired in a business combination with in-place leases is allocated to (i) the acquired tangible assets, consisting of land or other real property such as buildings, and (ii) the identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of other acquired intangible assets, based in each case on their fair values.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the as-if-vacant value is then allocated to land, building and tenant improvements, if any, based on the determination of the fair values of these assets. The as-if-vacant fair value of a property is determined by management based on an appraisal of the property by a qualified appraiser.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as intangible assets based on the present value (using an interest rate

which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including renewal periods likely of being exercised by the lessee. The capitalized above-market lease values are amortized as a reduction of rental income and the capitalized below-market lease values are amortized as an increase to rental income. We also record, as appropriate, an intangible asset for in-place leases. The value of the leases in place at the time of the transaction is equal to the potential revenue (rent and expenses) lost if the leases were not in place (during downtime) and that would be incurred to obtain the lease. The amortization is calculated over the initial term unless management believes that it is likely that the tenant would exercise the renewal option, whereby we would amortize the value attributable to the renewal over the renewal

- 7 -

## **Table of Contents**

period. If a lease were to be terminated, all unamortized amounts relating to that lease would be written off.

We record the purchases of real estate, other than in a business combination (i.e. real estate with no in-place leases), as asset acquisitions that are recorded at cost, including acquisition and closing costs. Our real estate is generally leased to tenants on a net lease basis, whereby the tenant is responsible for all operating expenses relating to the property, generally including property taxes, insurance, maintenance, repairs and capital expenditures. Scheduled rental revenue typically varies during the lease term and thus rental income is recognized on a straight-line basis, unless there is considerable risk as to collectability, so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis and is recorded in other assets. Rental expenses (if any) are charged to operations as incurred.

### ***Securitization of Receivables***

We have established various special purpose entities or securitization trusts for the purpose of securitizing certain financing receivables or other debt investments. We determined that the trusts used in securitizations are variable interest entities, or VIEs, as defined in ASC 810, Consolidation. We typically serve as primary or master servicer of these trusts; however, as the servicer, we do not have the power to make significant decisions impacting the performance of the trusts. Based on an analysis of the structure of the trusts, under U.S. GAAP, we have concluded that we are not the primary beneficiary of the trusts as we do not have power over the trusts' significant activities. Therefore, we do not consolidate these trusts in our condensed consolidated financial statements.

We account for transfers of financing receivables to these securitization trusts as sales pursuant to ASC 860, Transfers and Servicing, as we have concluded the transferred receivables have been isolated from the transferor (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership) and we have surrendered control over the transferred receivables. We have received true-sale-at-law opinions for all of our securitization trust structures and non-consolidation legal opinions for all but one old securitization trust structure that support our conclusion regarding the transferred receivables. When we sell receivables in securitizations, we generally retain minor interests in the form of servicing rights and residual assets, which we refer to as securitization assets.

Gain or loss on the sale of receivables is calculated based on the excess of the proceeds received from the securitization (less any transaction costs) plus any retained interests obtained over the cost basis of the receivables sold. For retained interests, we generally estimate fair value based on the present value of future expected cash flows using our best estimates of the key assumptions of anticipated losses, prepayment rates, and current market discount rates commensurate with the risks involved.

We initially account for all separately recognized servicing assets and servicing liabilities at fair value and subsequently measure such servicing assets and liabilities using the amortization method. Servicing assets and liabilities are amortized in proportion to, and over the period of, estimated net servicing income with servicing income recognized as earned. We assess servicing assets for impairment at each reporting date. If the amortized cost of servicing assets is greater than the estimated fair value, we will recognize an impairment in net income.

Our other retained interest in securitized assets, the residual assets, are classified as available-for-sale securities and carried at fair value on the condensed consolidated balance sheets in Other Assets. We generally do not sell our residual assets. Our residual assets are evaluated for impairment on a quarterly basis. Interest income related to the residual assets is recognized using the effective interest rate method. If there is a change in expected cash flows related to the residual assets, we calculate a new yield based on the current amortized cost of the residual assets and the revised expected cash flows. This yield is used prospectively to recognize interest income.

***Cash and Cash Equivalents***

Cash and cash equivalents include short-term government securities, certificates of deposit and money market funds, all of which had an original maturity of three months or less at the date of purchase. These securities are carried at their purchase price,

- 8 -

## **Table of Contents**

which approximates fair value.

### ***Restricted Cash***

Restricted cash includes cash and cash equivalents set aside with certain lenders primarily to support deferred funding and other obligations outstanding as of the balance sheet dates. Restricted Cash is reported as part of Other Assets in the condensed consolidated balance sheets.

### ***Variable Interest Entities and Equity Method Investments in Affiliates***

We account for our investment in entities that are considered voting or variable interest entities under ASC 810, Consolidation. We perform an ongoing assessment to determine the primary beneficiary of each entity as required by ASC 810. We have established various special purpose entities or securitization trusts for the purpose of securitizing certain financing receivables or other debt investments which are not consolidated in our financial statements as described in Securitization of Receivables above.

Substantially all of the activities of the special purpose entities that are formed for the purpose of holding our financing receivables and investments on our balance sheet are closely associated with our activities. Based on our assessment, we determined that we have power over and receive the benefits of these special purpose entities; hence, we are the primary beneficiary and should consolidate these entities under the provisions of ASC 810.

As described in Note 1, we made equity investments in various renewable energy projects. We share in the cash flows and tax attributes according to a negotiated schedule. Our renewable energy projects are typically owned in partnerships structures (using limited liability corporations, or LLCs taxed as partnerships) where we, along with other large institutional investors, if any, receive a stated preferred return consisting of a priority distribution of the project's cash flows, and in some cases, tax attributes. Once this preferred return is achieved, the partnership flips and the company which operates the project receives a larger portion of the cash flows through its interest in the holding company and we, along with the other institutional investors, will have an on-going residual interest.

We made several new equity investments in renewable energy projects in 2016 that, along with our existing investments, are accounted for under the equity method of accounting. Certain of our equity method investments were determined to be VIEs. Our maximum exposure to loss associated with our equity method investments is limited to our recorded value of our investments.

Under the equity method of accounting, the carrying value of our equity method investments is determined based on amounts we invested, adjusted for the equity in earnings or losses of investee allocated based on the limited liability entity agreement, less distributions received. Because the limited liability entity and holding company agreements contain preferences with regard to cash flows from operations, capital events and liquidation, we reflect our share of profits and losses by determining the difference between our claim on the investee's book value at the end and the beginning of the period. This claim is calculated as the amount we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with U.S. GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method or (HLBV). Intra company gains and losses are eliminated for an amount equal to our interest and are reflected in the share in loss from equity method investments in affiliates in the consolidated statements of operations. Cash distributions received from our equity method investments are classified as operating cash flows to the extent of cumulative HLBV earnings. Any additional cash flows are deemed to be returns of the investment and are classified as investing cash flows. We have elected to recognize earnings from these investments one quarter in arrears to allow for the receipt of financial information.

We evaluate the realization of our investment accounted for using the equity method if circumstances indicate that our investment is OTTI. OTTI occurs when the estimated fair value of an investment is below the carrying value and the difference is determined to not be recoverable. This evaluation requires significant judgment regarding, but not limited to, the severity and duration of the impairment; the ability and intent to hold the securities until recovery; financial condition, liquidity, and near-term prospects of the issuer; specific events; and other factors. Based on an evaluation of our equity method investments, we determined



## **Table of Contents**

that no impairment had occurred during the three or six months ended June 30, 2016 or 2015.

### ***Derivative Financial Instruments***

We utilize derivative financial instruments, primarily interest rate swaps, to manage, or hedge, our interest rate risk exposures associated with new debt issuances, to manage our exposure to fluctuations in interest rates on variable rate debt, and to optimize the mix of our fixed and floating-rate debt. In addition, we use forward-starting interest rate swap contracts to manage a portion of our interest rate exposure for anticipated refinancing of our long-term debts. Our objective is to manage the impact of interest rates on the results of operations and cash flows and the market value of our debt.

The interest rate swaps we use are designated as cash flow hedges and are considered highly effective in reducing our exposure to the interest rate risk that they are designated to hedge. This effectiveness is essential in order to qualify for hedge accounting. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. Derivatives are recorded on the consolidated balance sheet at fair value. If a derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in Accumulated Other Comprehensive Income, net of associated deferred income tax effects, in our Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) and are recognized in the Consolidated Statements of Operations when the hedged item affects earnings. Changes in fair value of the ineffective portions of these hedges are recognized in General and administrative expenses in our Consolidated Statements of Operations. For any derivative instruments not designated as hedging instruments, changes in fair value would be recognized in our Consolidated Statements of Operations in the period that the change occurs. We assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. We do not hold derivatives for trading purposes.

Interest rate swap contracts contain a credit risk that counterparties may be unable to fulfill the terms of the agreement. We attempt to minimize that risk by evaluating the creditworthiness of its counterparties, who are limited to major banks and financial institutions, and do not anticipate nonperformance by the counterparties.

### ***Income Taxes***

We elected and qualified to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2013. To qualify as a REIT, we must meet on an ongoing basis a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our net taxable income, excluding capital gains, to our shareholders. We intend to continue to meet the requirements for qualification as a REIT. As a REIT, we are not subject to U.S. federal corporate income tax on that portion of net income that is currently distributed to our owners. However, our taxable REIT subsidiaries ( TRSs ) will generally be subject to U.S. federal, state, and local income taxes as well as taxes of foreign jurisdictions, if any.

We account for income taxes of our TRSs using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

We apply accounting guidance with respect to how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. This guidance requires the accounting and disclosure of tax positions taken

or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are more likely than not to be sustained by the applicable tax authority. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes U.S. federal and certain states. We have no examinations in progress, none are expected at this time, and years 2012 through 2015 are open. As of June 30, 2016 and December 31, 2015, we had no uncertain tax positions. Our policy is to recognize interest expense and penalties related to income tax matters as a component of general and administrative expense. There were no accrued interest and penalties as of June 30, 2016 and December 31, 2015, and no interest and penalties were recognized

## **Table of Contents**

during the three or six months ended June 30, 2016 and 2015.

### ***Equity-Based Compensation***

At the time of completion of our initial public offering ( IPO ), we adopted our 2013 Equity Incentive Plan (the 2013 Plan ), which provides for grants of stock options, stock appreciation rights, restricted stock units, shares of restricted common stock, phantom shares, dividend equivalent rights, long-term incentive-plan units ( LTIP units ) and other restricted limited partnership units issued by our Operating Partnership and other equity-based awards. From time to time, we may award unvested restricted stock as compensation to members of our senior management team, our independent directors, employees, advisors, consultants and other personnel under our 2013 Plan.

We record compensation expense for stock awards in accordance with ASC 718, Compensation Stock Compensation. We record compensation expense for unvested shares that vest solely based on service conditions on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of grant. For awards where the vesting is contingent upon achievement of certain performance targets, compensation expense is recorded over the requisite service period (which includes the performance period) based on our estimate of the achievement of the various performance targets,. Our share price at the date of grant and actual performance results at the end of the performance period determine the fair value and the number of shares that will ultimately be awarded. The award earned is generally between 0% and 150% of the initial target, depending on the extent to which the performance target are met.

### ***Earnings Per Share***

We compute earnings per share of common stock in accordance with ASC 260, Earnings Per Share. Basic earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested shares of restricted common stock) by the weighted-average number of shares of common stock outstanding during the period excluding the weighted average number of unvested shares of restricted common stock or restricted stock units ( participating securities as defined in Note 12). Diluted earnings per share is calculated by dividing net income attributable to controlling stockholders by the weighted-average number of shares of common stock outstanding during the period plus other potentially dilutive securities. No adjustment is made for shares that are anti-dilutive during a period.

### ***Segment Reporting***

We provide and arrange debt and equity financing for sustainable infrastructure projects and report all of our activities as one business segment.

### ***Recently Issued Accounting Pronouncements***

#### ***Revenue from Contracts with Customers***

In May 2014, the FASB issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The FASB proposed delaying the effective date of the standard by one year and issued a proposal that is intended to clarify and simplify the guidance. The updated standard becomes effective for us on January 1, 2018 and we expect will be first presented in our March 31, 2018, Form 10-Q. We have not yet selected

a transition method, and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

*Consolidation*

In February 2015, the FASB issued ASU No. 2015-02 Consolidation (Topic 810) Amendments to the Consolidation Analysis, which affects the following areas of the consolidation analysis: limited partnerships and similar entities, evaluation of fees paid to a decision maker or service provider as a variable interest and in determination of the primary beneficiary, effect of related parties on the primary beneficiary determination and for certain investment funds. ASU No. 2015-02 is effective for us for our fiscal year ending December 31, 2016 and interim periods therein. The adoption of this standard did not have a material impact on our

## **Table of Contents**

consolidated financial position, results of operations and cash flows.

### *Income Taxes*

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*. The purpose of the standard is to simplify the presentation of deferred taxes on a classified balance sheet. Under current GAAP, deferred income tax assets and liabilities are separated into current and noncurrent amounts in the balance sheet. The amendments in ASU 2015-17 require that all deferred tax assets and liabilities be classified as noncurrent in the balance sheet. The ASU will be effective for us beginning January 1, 2017, including interim periods in the calendar year 2017, but with early adoption permitted. Since we do not report a classified balance sheet, we do not expect the adoption of ASU 2015-17 to have a material impact on our consolidated financial statements and related disclosures.

### *Leases*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Changes were made to align lessor accounting with the lessee accounting model and ASU No. 2014-09, *Revenue from Contracts with Customers*. The new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The ASU will be effective for us beginning January 1, 2019. Early application is permitted for all public business entities upon issuance. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. We are currently evaluating the impact of the application of this accounting standard update on our consolidated financial statements and related disclosures.

### *Share-Based Payments*

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*. Under the new guidance, entities will be required to recognize all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. In addition, the new guidance will allow an employer to repurchase up to the maximum statutory income tax rates in the applicable jurisdictions without triggering liability accounting and allow an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The guidance is effective for us beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted in any annual or interim period for which financial statements haven't been issued or made available for issuance, but all of the guidance must be adopted in the same period. We implemented this standard in the second quarter of 2016. The implementation did not have a material impact on our consolidated financial statements and related disclosures. See Note 11 for further information.

### *Equity Method Investments*

In March 2016, the FASB issued ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting*. The new standard eliminates the requirement for an investor to retroactively apply the equity method when an increase

in ownership interest in an investee triggers equity method accounting. It also simplifies in certain areas the accounting for equity method investments. The new standard becomes effective for us in fiscal year ending December 31, 2017 and interim periods therein. The adoption of this standard is not expected to have a material impact on our consolidated financial position, results of operations and

## Table of Contents

cash flows.

### *Credit Losses*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments (Topic 326). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the incurred loss approach under existing guidance with an expected loss model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as currently required. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact the adoption of ASU 2016-13 will have on our consolidated financial statements and related disclosures.

### **3. Fair Value Measurements**

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level hierarchy for classifying financial instruments. The levels of inputs used to determine the fair value of our financial assets and liabilities carried on the balance sheet at fair value and for those for which only disclosure of fair value is required are characterized in accordance with the fair value hierarchy established by ASC 820, Fair Value Measurements. Where inputs for a financial asset or liability fall in more than one level in the fair value hierarchy, the financial asset or liability is classified in its entirety based on the lowest level input that is significant to the fair value measurement of that financial asset or liability. We use our judgment and consider factors specific to the financial assets and liabilities in determining the significance of an input to the fair value measurements. As of June 30, 2016 and December 31, 2015, only our residual assets (described in Note 5), financing receivables held-for-sale, interest rate swaps and investments available-for-sale, if any, were carried at fair value on the condensed consolidated balance sheets on a recurring basis. The three levels of the fair value hierarchy are described below:

Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date.

Level 2 Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 Unobservable inputs are used when little or no market data is available.

Unless otherwise discussed below, fair value is measured using a discounted cash flow model, contractual terms and Level 3 unobservable inputs which consist of base interest rates and spreads over base rates which are based upon market observation and recent comparable transactions. An increase in these unobservable inputs would result in a lower fair value and a decline would result in a higher fair value. The financing receivables held for sale are carried at the lower of cost or market.

	<b>As of June 30, 2016</b>		
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Level</b>
	<i>(dollars in millions)</i>		
<b>Assets</b>			
Financing receivables	\$ 875	\$ 804	Level 3
Financing receivables held-for-sale	42	42	Level 3
Investments available-for-sale <sup>(1)</sup>	48	48	Level 3
<b>Liabilities</b>			
Credit facility	\$ 246	\$ 246	Level 3
Nonrecourse debt <sup>(2)</sup>	668	638	Level 3
Derivative liabilities	7	7	Level 2

- (1) The amortized cost of our investments available-for-sale as of June 30, 2016, was \$48 million.  
 (2) Fair value and carrying value of nonrecourse debt excludes unamortized debt issuance costs.



**Table of Contents**

	<b>As of December 31, 2015</b>		
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Level</b>
	<i>(dollars in millions)</i>		
<b>Assets</b>			
Financing receivables	\$ 806	\$ 784	Level 3
Financing receivables held-for-sale	61	60	Level 3
Investments available-for-sale <sup>(1)</sup>	29	29	Level 3
<b>Liabilities</b>			
Credit facility	\$ 247	\$ 247	Level 3
Nonrecourse debt <sup>(2)</sup>	690	680	Level 3
Derivative liabilities	1	1	Level 2

(1) The amortized cost of our investments available-for-sale as of December 31, 2015, was \$31 million.

(2) Fair value and carrying value of nonrecourse debt excludes unamortized debt issuance costs.

**Investments**

We carry our investments in debt securities at fair value on our balance sheet as investments available-for-sale. The following table reconciles the beginning and ending balances for our Level 3 investments that are carried at fair value on a recurring basis:

	<b>For the three months</b>			
	<b>ended</b>		<b>For the six months</b>	
	<b>June 30,</b>		<b>ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<i>(dollars in millions)</i>			
<b>Balance, beginning of period</b>	<b>\$ 37</b>	<b>\$ 23</b>	<b>\$ 29</b>	<b>\$ 27</b>
Purchases of investments available-for-sale	10	15	32	20
Payments on investments available-for-sale		(1)	(1)	(8)
Sale of investments available-for-sale		(9)	(14)	(11)
Gains on investments available-for-sale recorded in earnings		1	1	1
Gains (losses) on investments available-for-sale recorded in OCI <sup>(1)</sup>	1	(1)	1	(1)
<b>Balance, end of period</b>	<b>\$ 48</b>	<b>\$ 28</b>	<b>\$ 48</b>	<b>\$ 28</b>

(1) As of June 30, 2016, approximately \$10 million of investment grade rated debt that we held for more than 12 months was in an unrealized loss position due to interest rate movements. As of June 30, 2016, we held no other securities in an unrealized loss position.

For investments held at fair value, we used a range of interest rate spreads of approximately 1% to 5% based upon comparable transactions.

As of December 31, 2015, we held a \$13 million senior secured debt investment, along with a large financial institution which held the remaining approximately \$45 million in outstanding debt securities, in an operating wind project that was being foreclosed upon and expected to be sold. The foreclosure and sale was completed in 2016 and we recovered the full value of our debt investment and recognized a gain of \$0.8 million.

***Interest Rate Swap Agreements***

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. We have determined that the significant inputs, such as interest yield curves and discount rates, used to value our derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with our counterparties and our own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of our or our counterparties default. As of June 30, 2016 and December 31, 2015, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of our derivatives. As a result, we determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. See Note 8 for the estimated fair value of our derivative financial instruments. The fair values of the derivative financial instruments are included in the

**Table of Contents**

accounts payable, accrued expenses and other line item in the condensed consolidated balance sheets.

***Non-recurring Fair Value Measurements***

Our financial statements may include non-recurring fair value measurements related to acquisitions and non-monetary transactions, if any. Assets acquired in a business combination are recorded at their fair value. We may use third party valuation firms to assist us with developing our estimates of fair value.

***Concentration of Credit Risk***

Financing receivables, investments and leases consist primarily of U.S. federal government-backed receivables, investment grade state and local government receivables and receivables from various sustainable infrastructure projects and do not, in our view, represent a significant concentration of credit risk. See Note 6 for an analysis by type of obligor. As described above, we do not believe we have a significant credit exposure to our interest rate swap providers. We had cash deposits that are subject to credit risk as shown below:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<i>(dollars in millions)</i>	
Cash deposits	\$ 19	\$ 43
Restricted cash deposits (included in Other assets)	25	36
<b>Total cash deposits</b>	<b>\$ 44</b>	<b>\$ 79</b>
Amount of cash deposits in excess of amounts federally insured	\$ 40	\$ 75

**4. Non-Controlling Interest*****Non-Controlling Interest in Consolidated Entities***

Units of limited partnership interests in the Operating Partnership ( OP units ) that are owned by limited partners other than the Company are included in non-controlling interest on our condensed consolidated balance sheets. The non-controlling interest holders are generally allocated their pro rata share of income, other comprehensive income and equity transactions. The outstanding OP units held by outside limited partners represents less than 1% of our outstanding OP units and are redeemable for cash, or at our option, for a like number of shares of our common stock. No OP units were exchanged for shares of common stock during the six months ended June 30, 2016.

**5. Securitization of Receivables**

The following summarizes certain transactions with our securitization trusts:

	<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<i>(dollars in millions)</i>	
Gains on securitizations	\$ 10	\$ 4
Purchase of receivables securitized	\$ 319	\$ 96
Proceeds from securitizations	\$ 329	\$ 100
Residual and servicing assets included in Other Assets	\$ 15	\$ 10
Cash received from residual and servicing assets	\$ 2	\$ 1

In connection with securitization transactions, we typically retain servicing responsibilities and residual assets. In certain instances, we receive annual servicing fees ranging from 0.05% to 0.20% of the outstanding balance. We may periodically make servicer advances, which are subject to credit risk. Included in other assets in our condensed consolidated balance sheets are our servicing assets at amortized cost, our residual assets at fair value, and our servicing advances at cost, if any. Our residual assets are subordinate to investors' interests, and their values are subject to credit, prepayment and interest rate risks on the transferred financial assets. The investors and the securitization trusts have no recourse to our other assets for failure of debtors to pay when due. In computing gains and losses on securitizations, we use the same discount rates we use for the fair value calculation of residual assets,

**Table of Contents**

which are determined based on a review of comparable market transactions. Depending on the nature of the transaction risks, the discount rate ranged from 4% to 8%.

As of June 30, 2016 and December 31, 2015, our managed assets totaled \$3.5 billion and \$3.2 billion, of which \$2.1 billion and \$1.8 billion were securitized assets held in unconsolidated securitization trusts. There were no securitization credit losses during the three or six months ended June 30, 2016 or 2015, and no material securitization delinquencies as of June 30, 2016 and December 31, 2015. The securitized assets consist of financing receivables from contracts for the installation of energy efficiency and other technologies in facilities owned by, or operated for or by, the federal government where the ultimate obligor is the U.S. federal government. The contracts may have guarantees of energy savings from third party service providers, the majority of which are entities rated investment grade by an independent rating agency. Based on the nature of the receivables and experience to date, we do not currently expect to incur any credit losses on the receivables sold.

**6. Our Portfolio**

As of June 30, 2016, our Portfolio included approximately \$1.4 billion of financing receivables, investments, real estate and equity method investments on our balance sheet. The financing receivables and investments are typically collateralized by contractually committed debt obligations of government entities or private high credit quality obligors and are often supported by additional forms of credit enhancement, including security interests and supplier guaranties. The real estate is typically land and related lease intangibles for long-term leases to wind and solar projects with high credit quality obligors. The equity method investments represent our minority equity investments in renewable energy projects.

The following is an analysis of our Portfolio by type of obligor and credit quality as of June 30, 2016:

	<b>Investment Grade</b>		<b>Commercial</b>		<b>Subtotal,</b>	<b>Equity Method</b>	
	<b>Government</b>	<b>Commercial Investment Grade<sup>(1)</sup></b>	<b>Commercial Non-Investment Grade<sup>(3)</sup></b>	<b>Debt and Real Estate</b>	<b>Debt and Real Estate</b>	<b>Investments<sup>(4)</sup></b>	<b>Total</b>
	<i>(dollars in millions)</i>						
Financing receivables	\$ 372	\$ 415	\$ 17	\$ 804	\$	\$	\$ 804
Financing receivables held-for-sale	42			42			42
Investments	33	15		48			48
Real estate <sup>(5)</sup>		162		162			162
Equity method investments						335	335
<b>Total</b>	<b>\$ 447</b>	<b>\$ 592</b>	<b>\$ 17</b>	<b>\$ 1,056</b>	<b>\$</b>	<b>\$ 335</b>	<b>\$ 1,391</b>
% of Debt and Real Estate Portfolio	42%	56%	2%	100%		N/A	N/A
Average Remaining Balance <sup>(6)</sup>	\$ 12	\$ 9	\$ 17	\$ 10	\$	\$ 21	\$ 12

(1) Transactions where the ultimate obligor is the U.S. federal government or state or local governments where the obligors are rated investment grade (either by an independent rating agency or based upon our internal credit analysis). This amount includes \$268 million of U.S. federal government transactions and \$179 million of

transactions where the ultimate obligors are state or local governments. Transactions may have guaranties of energy savings from third party service providers, the majority of which are entities rated investment grade by an independent rating agency.

- (2) Transactions where the projects or the ultimate obligors are commercial entities, including institutions such as hospitals or universities, that have been rated investment grade (either by an independent rating agency or based on our internal credit analysis). Of this total, \$10 million of the transactions have been rated investment grade by an independent rating agency. Commercial investment grade financing receivables include \$177 million of internally rated residential solar loans where the cash flows which support our financing receivables are subordinated to the tax equity investors (whose return is largely derived from the renewable energy tax incentives) and for which we rely on certain tax related indemnities of the publicly traded residential solar provider.
- (3) Transactions where the projects or the ultimate obligors are commercial entities, including institutions such as hospitals or universities, that have ratings below investment grade (either by an independent rating agency or using our internal credit analysis).
- (4) Consists of ownership interests in operating renewable energy projects.
- (5) Includes the real estate and the lease intangible assets through which we receive scheduled lease payments, typically under long-term triple net lease agreements.
- (6) Exclu