Hannon Armstrong Sustainable Infrastructure Capital, Inc.
Form 10-Q
August 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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	46-1347456
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1906 Towne Centre Blvd, Suite 370 Annapolis, Maryland	21401
(Address of principal executive offices)	(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 54,041,095 shares of common stock, par value $0.01 per share, outstanding as of July 30, 2018 (which includes 1,312,768 shares of unvested restricted common stock).

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-lo 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 year ended December 31, 2017 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2017 (collectively, our "2017 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 or enhance the economic feasibility of sustainable infrastructure projects, including energy efficiency and renewable energy 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 invest in projects that reduce greenhouse gas emissions or mitigate the impact of climate change including energy efficiency and renewable energy 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 capital;
- our or any other companies' projected operating results;
- actions and initiatives of the federal, state and local governments and changes to 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;
- the impact of weather conditions, natural disasters, accidents or equipment failures or other events that disrupt the operation of our investments or negatively impact the value our assets;
- rates of default or decreased recovery rates on our assets;
- interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;
- changes in interest rates, including the flattening of the yield curve, and the market value of our assets and target assets;
- changes in commodity prices, including continued low natural gas prices;
- effects of hedging instruments on our assets or liabilities;
- the degree to which our hedging strategies may or may not protect us from risks, such as 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 exemption from registration under the Investment Company Act of 1940, as amended (the "1940 Act");
- availability of and our ability to attract and retain qualified personnel;
- estimates relating to our ability to generate sufficient cash in the future to operate our business and to make distributions to our stockholders; 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 2017 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 2017 Form 10-K.

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Item 1. Financial Statements

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Equity method investments	$461,159	$522,615
Government receivables	511,700	519,485
Commercial receivables	468,402	473,452
Receivables held-for-sale	18,078	19,081
Real estate	355,200	340,824
Investments	153,612	151,209
Cash and cash equivalents	41,812	57,274
Other assets	208,044	166,232
Total Assets	$2,218,007	$2,250,172
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other	$24,772	$25,645
Deferred funding obligations	97,685	153,308
Credit facility	102,939	69,922
Non-recourse debt (secured by assets of $1,503 million and $1,545 million, respectively)	1,198,256	1,210,861
Convertible notes	147,959	147,655
Total Liabilities	1,571,611	1,607,391
Stockholders' Equity:		
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, 52,728,327 and 51,665,449 shares issued and outstanding, respectively	527	517
Additional paid in capital	789,129	770,983
Accumulated deficit	(150,624)	(131,251)
Accumulated other comprehensive income (loss)	3,855	(1,065)
Non-controlling interest	3,509	3,597
Total Stockholders' Equity	646,396	642,781
Total Liabilities and Stockholders' Equity	$2,218,007	$2,250,172

See accompanying notes.

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,	
	2018	2017	2018	2017
Revenue				
Interest income, receivables	$12,756	$ 13,637	$25,604	$ 27,755
Interest income, investments	1,589	1,358	3,129	2,301
Rental income	5,967	4,863	11,909	8,972
Gain on sale of receivables and investments	14,208	7,726	20,465	11,675
Fee income	1,306	691	2,627	1,372
Total revenue	35,826	28,275	63,734	52,075
Expenses				
Interest expense	19,033	15,361	37,744	29,144
Compensation and benefits	6,335	5,659	11,656	10,385
General and administrative	3,535	3,139	6,336	5,327
Total expenses	28,903	24,159	55,736	44,856
Income before equity method investments	6,923	4,116	7,998	7,219
Income (loss) from equity method investments	10,583	8,377	8,298	12,548
Income (loss) before income taxes	17,506	12,493	16,296	19,767
Income tax (expense) benefit	(153)	(83)	(171)	(114)
Net income (loss)	$17,353	$ 12,410	$16,125	$ 19,653
Net income (loss) attributable to non-controlling interest holders	91	70	86	114
Net income (loss) attributable to controlling stockholders	$17,262	$ 12,340	$16,039	$ 19,539
Basic earnings per common share	$0.32	$ 0.23	$0.29	$ 0.38
Diluted earnings per common share	$0.32	$ 0.23	$0.29	$ 0.38
Weighted average common shares outstanding—basic	52,051,253	50,573,996	51,882,021	49,044,051
Weighted average common shares outstanding—diluted	52,051,253	50,573,996	51,882,021	49,044,051

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$17,353	$12,410	$16,125	$19,653
Unrealized gain (loss) on available-for-sale securities, net of tax benefit (provision) of $0.0 million in each of the three and six month periods ended 2018 and 2017, respectively	(303)	2,149	(3,032)	2,621
Unrealized gain (loss) on interest rate swaps, net of tax benefit (provision) of $0.0 million in each of the three and six month periods ended 2018 and 2017, respectively	2,082	(2,792)	7,979	(1,804)
Comprehensive income (loss)	19,132	11,767	21,072	20,470
Less: Comprehensive income (loss) attributable to non-controlling interest holders	101	67	113	118
Comprehensive income (loss) attributable to controlling stockholders	$19,031	$11,700	$20,959	$20,352

See accompanying notes.

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income (loss)	$16,125	$19,653
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,436	6,058
Equity-based compensation	5,225	5,553
Equity method investments	5,572	(6,938)
Non-cash gain on securitization	(16,009)	(11,061)
Gain on sale of receivables and investments	—	(1,655)
Changes in receivables held-for-sale	3,143	—
Changes in accounts payable and accrued expenses	(766)	2,168
Other	(6,207)	(129)
Net cash provided by (used in) operating activities	14,519	13,649
Cash flows from investing activities		
Equity method investments	(347)	(214,537)
Equity method distributions received	56,353	33,772
Purchases of receivables	(3,466)	(80,921)
Principal collections from receivables	16,912	55,513
Proceeds from sales of receivables	—	51,389
Purchases of real estate	(15,842)	(118,963)
Purchases of investments	(6,384)	(10,991)
Principal collections from investments	682	1,225
Funding of escrow accounts	(21,518)	—
Withdrawal from escrow accounts	14,660	—
Other	(728)	(5,285)
Net cash provided by (used in) investing activities	40,322	(288,798)
Cash flows from financing activities		
Proceeds from credit facilities	32,938	277,612
Principal payments on credit facilities	—	(168,801)
Proceeds from issuance of non-recourse debt	46,673	258,189
Principal payments on non-recourse debt	(62,067)	(27,704)
Payments on deferred funding obligations	(57,039)	(73,927)
Net proceeds of common stock issuances	15,332	98,399
Payments of dividends and distributions	(35,277)	(33,020)
Other	(3,447)	(9,167)
Net cash provided by (used in) financing activities	(62,887)	321,581
Increase (decrease) in cash, cash equivalents, and restricted cash	(8,046)	46,432
Cash, cash equivalents, and restricted cash at beginning of period	118,177	59,144
Cash, cash equivalents, and restricted cash at end of period	$110,131	$105,576
Interest paid	$33,284	$21,088
Non-cash changes in deferred funding obligations (financing activity)	1,674	175,970
Non-cash changes in receivables and investments (investing activity)	—	(175,970)
Non-cash changes in residual assets (investing activity)	(16,883)	(11,061)

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2018

1. The Company

Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the "Company") provides capital and services focused on reducing climate changing greenhouse gas emissions ("GHG" or carbon emissions) as well as mitigating the impact of, or increasing resiliency to, climate change. We focus primarily on the energy efficiency, renewable energy and sustainable infrastructure markets. Our goal is to generate attractive returns for our stockholders by investing capital in assets or projects that generate long-term, recurring and predictable cash flows or cost savings from proven technologies. We also provide services to the various partners and counterparties in the markets where we invest.

The Company and its subsidiaries are hereafter referred to as "we," "us," or "our." Our investments take various forms, including equity, joint ventures, lending or other financing transactions, as well as land ownership and typically benefit from contractually committed high credit quality obligors. We also generate on-going fees through gain-on-sale securitization transactions, advisory services and asset management. We refer to the income producing assets that we hold on our balance sheet as our "Portfolio." Our Portfolio may include:

- Equity investments in either preferred or common structures in unconsolidated entities;
- Government and commercial receivables, such as loans for renewable energy and energy efficiency projects;
- Real estate, such as land or other assets leased for use by sustainable infrastructure projects typically under long term leases; and
- Investments in debt securities of renewable energy or energy efficiency projects.

We finance our business through cash on hand, borrowings under credit facilities and debt transactions, various asset-backed securitization transactions and equity issuances. We also generate fee income through securitizations and syndications, by providing broker/dealer services and by managing and servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with investing in 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 real estate investment trust ("REIT") and also intend to operate our business in a manner that will permit us to continue to maintain our exemption from registration as an investment company under the 1940 Act, 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 preparation of financial statements in accordance with U.S. generally accepted accounting principles ("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. These financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017, as filed with the SEC. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations and cash flows have been included. Our results of operations for the quarterly period ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year or any other future period. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Certain amounts in the prior years have been reclassified to conform to the current year presentation.

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

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

Consolidation and Equity Method Investments

We account for our investments in entities that are considered voting interest entities or variable interest entities ("VIEs") under ASC 810 and assess whether we should consolidate these entities on an ongoing basis. We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or other debt investments which are not consolidated in our financial statements as described in Securitization of Receivables below.

Substantially all of the activities of the special purpose entities that are formed for the purpose of holding our government and commercial 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.

We have made equity investments in various renewable energy projects. We share in the cash flows, income, and tax attributes according to a negotiated schedule (which typically does not correspond with our ownership percentages). Our renewable energy projects are typically owned in holding companies (using limited liability companies ("LLCs"), taxed as partnerships) where we receive a stated preferred return consisting of a priority distribution of all or a portion of the project's cash flows, and in some cases, tax attributes. We have typically partnered with either the operator of the project or other institutional investors. Once our preferred return is achieved, the partnership "flips" and operator of the project, receives a larger portion of the cash flows through its interest in the holding company and we, along with any other institutional investors, will have an on-going residual interest.

These equity investments in renewable energy projects are accounted for under the equity method of accounting. Certain of our equity method investments were determined to be VIEs in which we are not the primary beneficiary, as we do not direct the significant activities of those entities in which we invest. Our maximum exposure to loss associated with the continued operation of the underlying projects in our equity method investments is limited to our recorded value of our investments. Under the equity method of accounting, the carrying value of these equity method investments is determined based on amounts we invested, adjusted for the equity in earnings or losses of the investee allocated based on the LLC agreement, less distributions received. For the LLC agreements which 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 beginning and the end of the period, which is adjusted for distributions received and contributions made. 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 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"). Any difference between the amount of our investment and the amount of underlying equity in net assets is generally amortized over the life of the assets and liabilities to which the difference relates. Intercompany gains and losses are eliminated for an amount equal to our interest and are reflected in our share of income or loss from equity method investments in the consolidated statements of operations. Cash distributions received from these equity method investments are classified as operating activities to the extent of cumulative HLBV earnings in our consolidated statements of cash flows. We have elected to recognize earnings from these investments one quarter in arrears to allow for the receipt of financial information.

We have also made an investment in a joint venture which holds land under solar projects that we have determined to be a voting interest entity. This investment entitles us to receive an equal percentage of both cash distributions and profit and loss under the terms of the LLC operating agreement. The investment is accounted for under the equity method of accounting with our portion of income being recognized in income (loss) from equity method investments in the period in which the income is earned. Cash distributions received from this equity method investment are classified as operating activities to the extent of cumulative earnings in our consolidated statements of cash flows. Our

initial investment and additional cash distributions beyond that which is classified as operating activities are classified as investing activities in our consolidated statements of cash flows.
We evaluate on a quarterly basis whether our investments accounted for using the equity method have an other than temporary impairment ("OTTI"). An 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.

Government and Commercial Receivables

Government and commercial receivables (“receivables”), include energy efficiency and renewable energy project loans and receivables. These receivables are separately presented in our balance sheet to illustrate the differing nature of the credit risk related to these assets. Unless otherwise noted, we generally have the ability and intent to hold our receivables for the foreseeable future and thus they are classified as held for investment. Our ability and intent to hold certain receivables may change from time to time depending on a number of factors, including economic, liquidity and capital market conditions. At inception of the arrangement, the carrying value of 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. Receivables that are held for investment are carried, unless deemed impaired, at amortized cost, net of any unamortized acquisition premiums or discounts and include origination and acquisition costs, as applicable. Our initial investment and principal repayments of these receivables are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows. 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 receivables that we intend to sell at origination are classified as operating activities in our consolidated statements of cash flows, otherwise the net purchases and proceeds are classified as investing activities. Interest collected is classified as an operating activity in our consolidated statements of cash flows.

We evaluate our 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 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 receivable delinquent or impaired and place the receivable on non-accrual status and cease recognizing income from that receivable until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a 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 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 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 ratio, 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 receivable is considered to be impaired, we will determine if an allowance should be recorded. We will record an allowance if the present value of expected future cash flows discounted at the receivable’s contractual effective rate is less than its carrying value. This estimate of cash flows may include the currently estimated fair market value of the collateral less estimated selling costs if repayment is expected from the collateral. We charge off receivables against the allowance, if any, when we determine the unpaid principal balance is uncollectible, net of recovered amounts.

Real Estate

Real estate consists of land or other real estate and its related lease intangibles, net of any amortization. Our real estate is generally leased to tenants on a triple 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. Expenses, if any, related to the ongoing operation of leases where we are the lessor, are charged to operations as incurred. Our initial investment is classified as investing activities and income collected for rental income is classified as operating activities in our consolidated statements of cash flows.

We typically record our real estate purchases as asset acquisitions that are recorded at cost, including acquisition and closing costs. When we record our real estate purchases as asset acquisitions we allocate our cost to each tangible and intangible asset acquired on a relative fair value basis.

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 typically determined by management based on appraisals by a qualified appraiser. In determining the fair value of the identified intangibles of an acquired property, above-market and below-market in-place lease values are valued 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, both of which are amortized over the term used to value the intangible. 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 income lost if the leases were not in place. The amortization of this intangible occurs over the initial term unless management believes that it is likely that the tenant would exercise the renewal option, in which case the amortization would extend through the renewal period. If a lease were to be terminated, all unamortized amounts relating to that lease would be written off.

Investments

Investments are 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 to have an OTTI, on available-for-sale debt securities are recorded as a component of accumulated other comprehensive income ("AOCI") in equity on our balance sheet. Our initial investment and principal repayments of these investments are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows.

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 the OTTI in earnings. We determine the credit component using the difference between the security's 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 is recorded in AOCI.

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 interest income using the effective interest method.

Securitization of Receivables

We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or investments. We determined that the trusts used in securitizations are VIEs, as defined in ASC 810. 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, 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 consolidated financial statements.

We account for transfers of receivables or investments to these securitization trusts as sales pursuant to ASC 860, Transfers and Servicing, when 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 legacy securitization trust structure that support our conclusion regarding the transferred receivables. When we sell receivables in securitizations, we generally retain 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. Cash flows related to our securitizations at origination are classified as operating activities in our consolidated statements of cash flows.

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 accounted for as available-for-sale securities and carried at fair value on the 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 the 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, 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 consolidated balance sheets. Refer to Note 3 for disclosure of the balances of restricted cash included in other assets.

Convertible Notes

We have issued convertible senior notes that are accounted for in accordance with ASC 470-20, Debt with Conversion and Other Options, and ASC 815, Derivatives and Hedging ("ASC 815"). Under ASC 815, issuers of certain convertible debt instruments are generally required to separately account for the conversion option of the convertible debt instrument as either a derivative or equity, unless it meets the scope exemption for contracts indexed to, and settled in, an issuer’s own equity. Since this conversion option is both indexed to our equity and can only be settled in our common stock, we have met the scope exemption, and therefore, we are not separately accounting for the embedded conversion option. The initial issuance and any principal repayments are classified as financing activities and interest payments are classified as operating activities in our consolidated statements of cash flows.

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 reduce the impact of changes in interest rates on our results of operations and cash flows. The fair values of our interest rate swaps designated and qualifying as effective cash flow hedges are reflected in our consolidated balance sheets as a component of other assets (if in an unrealized asset position) or accounts payable, accrued expenses and other (if in an unrealized liability position) and in net unrealized gains and losses in AOCI. The cash settlements of our interest rate swaps are classified as operating activities in our consolidated statements of cash flows.

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 required in order to qualify for hedge accounting. Instruments that meet the required hedging criteria are formally designated as hedges at the inception of the derivative contract. Derivatives are recorded at fair value. If a derivative is designated as a cash flow hedge and meets the highly effective threshold, the change in the fair value of the derivative is recorded in AOCI, net of associated deferred income tax effects and is recognized in earnings at the same time as the hedged item, including as a result of the accrual of interest. For any derivative instruments not designated as hedging instruments, changes in fair value would be recognized in earnings in the period that the change occurs. We assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives designated as cash flow hedges are highly effective in offsetting the changes in cash flows of the 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 our 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 stockholders. 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 under ASC 740, Income Taxes ("ASC 740") for 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 evaluate any deferred tax assets for valuation allowances based on an assessment of available evidence including sources of taxable income, prior years taxable income, any existing taxable temporary differences and our future investment and business plans that may give rise to taxable income.

We apply ASC 740 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.

Equity-Based Compensation

In 2013, we adopted our 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 make equity or equity based awards as compensation to members of our senior management team, our independent directors, employees, advisors, consultants and other personnel under our 2013 Plan. Certain awards earned under the plan are based on achieving various performance targets, which are generally earned between 0% and 200% of the initial target, depending on the extent to which the performance target is met.

We record compensation expense for grants made under the 2013 Plan in accordance with ASC 718, Compensation-Stock Compensation. We record compensation expense for unvested grants that vest solely based on service conditions on a straight-line basis over the vesting period of the entire award based upon the fair market value of the grant on the date of grant. Fair market value for restricted common stock is based on our share price on the date of grant. For awards where the vesting is contingent upon achievement of certain performance targets, compensation expense is measured based on the fair market value on the grant date and is recorded over the requisite service period (which includes the performance period). Actual performance results at the end of the performance period determines the number of shares that will ultimately be awarded. We have also issued restricted stock units where the vesting is contingent upon service being provided for a defined period and certain market conditions being met. The fair value of these awards, as measured at the grant date, is recognized over the requisite service period, even if the market conditions are not met. The grant date fair value of these awards was developed by an independent appraiser using a Monte Carlo simulation.

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 grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period excluding the weighted average number of unvested grants under the 2013 Plan, if applicable ("participating securities" as defined in Note 12). Diluted earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period plus other potential common stock instruments if they are dilutive. Other potentially dilutive common stock instruments include our unvested restricted stock, restricted stock units and convertible notes. The restricted stock and restricted stock units are included if they are dilutive using the treasury stock method. The treasury stock method assumes that theoretical proceeds received for future service provided is used to purchase treasury stock at our stock's average market price, which is deducted from the amount of stock included in the calculation. When unvested grants are dilutive, the earnings allocated to these dilutive unvested grants are not deducted from the net income attributable to controlling stockholders when calculating diluted earnings per share. The convertible notes are included if they are dilutive using the if-converted method. The if-converted method removes interest expense related to the convertible notes from the net income attributable to controlling stockholders and includes the weighted average shares over the period issuable upon conversion of the note. No adjustment is made for shares that are anti-dilutive during a period.

Segment Reporting

We make equity and debt investments for sustainable infrastructure projects. We manage our business as a single portfolio 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 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 replaces most existing revenue recognition guidance in GAAP and permits the use of either the retrospective or modified retrospective transition method. We have adopted ASU 2014-09 effective January 1, 2018, and have elected the modified retrospective transition method. The adoption of ASU 2014-09 did not have a material impact on our consolidated financial statements and related disclosures as the majority of our sources of revenue, e.g., investments in receivables, debt and equity securities, land leasing, and the securitization of receivables are not within the scope of the new standard.

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, an identified 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 ASU will be effective for us beginning January 1, 2019. Early application is permitted for all public business entities at any time. Lessees and lessors may apply either 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 or may recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The guidance allows for certain practical expedients to transition, which if elected, would allow us to continue to use our previous lease classification conclusions and continue to classify the leases that exist at the date of adoption based on their pre-existing classification. The changes in guidance could result in a different accounting treatment for certain of our operating leases as lessors of real estate. We are currently evaluating the impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

Credit Losses

In June 2016, the FASB issued ASU No. 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 expected losses from available-for-sale debt securities rather than reduce the amortized cost, 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.

Other accounting standards updates issued before August 3, 2018 and effective after June 30, 2018 are not expected to have a material effect 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 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, 2018 and December 31, 2017, only our residual assets related to our securitization trusts, interest rate swaps and investments, if any, were carried at fair value on the 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.

The tables below illustrate the estimated fair value of our financial instruments on our balance sheet. Unless otherwise discussed below, fair value for our Level 2 and Level 3 measurements is measured using a discounted cash flow model, contractual terms and 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 inputs would result in a lower fair value and a decline would result in a higher fair value. Our convertible notes are valued using a market based approach and observable prices. The receivables held-for-sale, if any, are carried at the lower of cost or fair value.

	As of June 30, 2018		
	Fair Value	Carrying Value	Level
	(in millions)		
Assets			
Government receivables	$494	$ 512	Level 3
Commercial receivables	447	468	Level 3
Receivables held-for-sale	18	18	Level 3
Investments (1)	154	154	Level 3
Securitization residual assets (2)	62	62	Level 3
Derivative assets	8	8	Level 2
Liabilities			
Credit facility	$103	$ 103	Level 3
Non-recourse debt (3)	1,202	1,223	Level 3
Convertible notes (3)	146	152	Level 2

(1) The amortized cost of our investments as of June 30, 2018 was $159 million.
(2) Included in other assets on the consolidated balance sheet.
(3) Fair value and carrying value excludes unamortized debt issuance costs.

	As of December 31, 2017		
	Fair Value	Carrying Value	Level
	(in millions)		
Assets			
Government receivables	$519	$ 519	Level 3
Commercial receivables	464	473	Level 3
Receivables held-for-sale	20	19	Level 3
Investments (1)	151	151	Level 3
Securitization residual assets (2)	45	45	Level 3
Liabilities			
Credit facility	$70	$ 70	Level 3
Non-recourse debt (3)	1,239	1,238	Level 3
Convertible notes (3)	156	152	Level 2

(1) The amortized cost of our investments as of December 31, 2017 was $153 million.
(2) Included in other assets on the consolidated balance sheet.
(3) Fair value and carrying value excludes unamortized debt issuance costs.

Investments

The following table reconciles the beginning and ending balances for our Level 3 investments that are carried at fair value on a recurring basis:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Balance, beginning of period	$152	$125	$151	$58
Purchases of investments	3	1	6	67
Payments on investments	(1)	(1)	(1)	(1)
Unrealized gains (losses) on investments recorded in AOCI	—	1	(2)	2
Balance, end of period	$154	$126	$154	$126

The following table illustrates our investments in an unrealized loss position:

	Estimated Fair Value		Unrealized Losses (1)	
	Securities with a loss shorter than 12 months	Securities with a loss longer than 12 months	Securities with a loss shorter than 12 months	Securities with a loss longer than 12 months
	(in millions)			
June 30, 2018	$105	$ 44	$ 3	$ 2
December 31, 2017	26	46	1	2

(1) Loss position is due to interest rates movements. We have the intent and ability to hold these investments until a recovery of fair value.

In determining the fair value of our investments, we used a range of interest rate spreads of approximately 1% to 4% based upon comparable transactions as of June 30, 2018 and December 31, 2017.

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, 2018 and December 31, 2017, 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.

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

Government and commercial 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 and the method for rating. 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:

	June 30, 2018	December 31, 2017
	(in millions)	
Cash deposits	$42	$ 57
Restricted cash deposits (included in other assets)	68	61
Total cash deposits	$110	$ 118
Amount of cash deposits in excess of amounts federally insured	$109	$ 116

4. Non-Controlling Interest

Units of limited partnership interests in the Operating Partnership ("OP units") that are owned by limited partners other than us are included in non-controlling interest on our consolidated balance sheets. The outstanding OP units held by outside limited partners represent less than 1% of our outstanding OP units and are redeemable by the limited partners for cash, or at our option, for a like number of shares of our common stock. We exchanged 3,703 OP units held by our non-controlling interest holders for the same number of shares of our common stock during the six months ended June 30, 2018. No OP units were exchanged for either cash or shares of our common stock during the six months ended June 30, 2017. The non-controlling interest holders are generally allocated their pro rata share of income, other comprehensive income and equity transactions.

5. Securitization of Receivables

The following summarizes certain transactions with our securitization trusts:

	As of and for the six months ended June 30,	
	2018	2017
	(in millions)	
Gains on securitizations	$ 20	$ 12
Purchase of receivables securitized	286	195
Proceeds from securitizations	306	207
Residual and servicing assets included in other assets	62	29
Cash received from residual and servicing assets	2	3

In connection with securitization transactions, we typically retain servicing responsibilities and residual assets. In certain instances, we receive annual servicing fees of up 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 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, which are determined based on a review of comparable market transactions including Level 3 unobservable inputs

which consist of base interest rates and spreads over base rates. Depending on the nature of the transaction risks, the discount rate ranged from 4% to 7%.

As of June 30, 2018 and December 31, 2017, our managed assets totaled $4.9 billion and $4.7 billion, respectively, of which $2.9 billion and $2.7 billion, respectively, were securitized assets held in unconsolidated securitization trusts. There were no securitization credit losses in the six months ended June 30, 2018 or 2017. As of June 30, 2018, there was approximately $1.4 million in payments from certain debtors to the securitization trusts that was greater than 90 days past due. The securitized assets consist of receivables from contracts for the installation of energy efficiency and other technologies in facilities owned by, or operated for or by, federal, state or local government entities where the ultimate obligor is the government. The contracts may have guarantees of energy savings from third party service providers, which typically 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 of our residual interests related to the receivables sold.

6. Our Portfolio

As of June 30, 2018, our Portfolio included approximately $2.0 billion of equity method investments, receivables, real estate and investments on our balance sheet. The equity method investments represent our non-controlling equity investments in renewable energy projects and land. The 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.

The following is an analysis of our Portfolio as of June 30, 2018:

	Investment Grade					
	Government (1)	Commercial Investment Grade (2)	Commercial Non-Investment Grade (3)	Subtotal, Debt and Real Estate	Equity Method Investments	Total
	(dollars in millions)					
Equity investments in renewable energy projects	$—	$ —	$—	$ —	$ 439	$439
Receivables (4)	512	460	8	980	—	980
Receivables held-for-sale	18	—	—	18	—	18
Real estate (5)	—	355	—	355	22	377
Investments	102	52	—	154	—	154
Total	$632	$ 867	$8	$ 1,507	$ 461	$1,968
% of Debt and real estate portfolio	42 %	57 %	1 %	100 %	N/A	N/A
Average remaining balance (6)	$11	$ 9	$4	$ 10	$ 17	$11

(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 $394 million of U.S. federal government transactions and $238 million of transactions where the ultimate obligors are state or local governments. Transactions may have guaranties of energy savings from third party service providers, which typically are entities rated investment grade by an independent rating agency.

(2) Transactions where the projects or the ultimate obligors are commercial entities 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 receivables include $310 million of internally rated residential solar loans made on a non-recourse basis to special purpose subsidiaries of the SunPower Corporation (“SunPower”), for which we rely on certain limited indemnities, warranties, and other obligations of SunPower or its other subsidiaries.

(3) Transactions where the projects or the ultimate obligors are commercial entities that have ratings below investment grade (either by an independent rating agency or using our internal credit analysis).

(4)

Total reconciles to the total of the government receivables and commercial receivables lines of the consolidated balance sheets.

(5) Includes the real estate and the lease intangible assets (including those held through equity method investments) from which we receive scheduled lease payments, typically under long-term triple net lease agreements.

(6) Excludes approximately 150 transactions each with outstanding balances that are less than $1 million and that in the aggregate total $57 million.

Equity Method Investments

We have made non-controlling equity investments in a number of renewable energy projects as well as in a joint venture that owns land with a long-term triple net lease agreement to several solar projects that we account for as equity method investments. As of June 30, 2018, we held the following equity method investments:

Investment Date	Investee	Carrying Value (in millions)
Various	Vento I, LLC	$ 98
Various	Northern Frontier, LLC	97
December 2015	Buckeye Wind Energy Class B Holdings, LLC	70
October 2016	Invenergy Gunsight Mountain Holdings, LLC	38
June 2016	MM Solar Holdings, LLC	29
Various	Helix Fund I, LLC	24
Various	Other transactions	105
	Total equity method investments	$ 461

An underlying solar project associated with one of our equity method investments located in the U.S. Virgin Islands was materially damaged in the 2017 hurricanes. Although there can be no assurance in this regard, we believe that the project’s insurance as well as other existing assets in the project will be sufficient to recover our investment of approximately $11 million through either rebuilding the project or returning our invested capital.

As of December 31, 2017, we held a $25 million investment in a wind project that was purchased as part of a portfolio at a significant discount to the project’s book value, in part, due to the lack of a power purchase agreement and some operational issues. As disclosed in our 2017 Form 10-K, in February 2018, the sponsor indicated they would be recording a material write-down of the project within their 2017 annual financial statements due to these issues. As we account for this investment one quarter in arrears, we recognized an $8 million non-cash HLBV loss in the first quarter of 2018. There were no additional write-downs of the project recorded by us during the three months ended June 30, 2018. Although there can be no assurance in this regard, we believe there are sufficient cash flows to recover our $15 million carrying value of this investment as of June 30, 2018.

Based on an evaluation of our equity method investments, inclusive of these projects, we determined that no OTTI had occurred as of June 30, 2018 or December 31, 2017.

Receivables and Investments

The following table provides a summary of our anticipated maturity dates of our receivables and investments and the weighted average yield for each range of maturities as of June 30, 2018:

	Total	Less than 1 year	1-5 years	5-10 years	More than 10 years
	(dollars in millions)				
Receivables					
Maturities by period	$980	$ 1	$ 19	$ 68	$ 892
Weighted average yield by period	5.1 %	2.4 %	5.8 %	4.6 %	5.1 %
Investments					
Maturities by period	$154	$ —	$ 65	$ 14	$ 75
Weighted average yield by period	4.0 %	N/A	3.6 %	4.0 %	4.4 %

Our non-investment grade assets consist of two commercial receivables with a carrying value of approximately $8 million as of June 30, 2018 that became past due in the second quarter of 2017. These receivables, which we acquired as part of our acquisition of American Wind Capital Company, LLC in 2014, are assignments of land lease payments from two wind projects (the “Projects”). We have been informed by the owner of the Projects that the Projects are experiencing a decline in revenue. The owner of the Projects is seeking to terminate the lease. In July 2017, we filed a legal claim against the owners of the Projects in order to protect our interests in these Projects and the amounts due to us under the land lease assignments. In January 2018, we received a $1.6 million payment from the Projects and we continue to pursue our legal claims. Although there can be no assurance in this regard, we believe that we have the ability to recover the carrying value from the Projects based on projected cash flows, and thus have not recorded an allowance for losses as of June 30, 2018. We have determined that the assets are impaired and placed them on non-accrual status.

Other than discussed above, we had no receivables or investments that were impaired or on non-accrual status as of June 30, 2018 or December 31, 2017. There was no provision for credit losses or troubled debt restructurings as of June 30, 2018 or December 31, 2017.

Real Estate

Our real estate is leased to renewable energy projects, typically under long-term triple net leases with expiration dates that range between the years 2033 and 2057 under the initial terms and 2047 and 2080 if all renewals are exercised. The components of our real estate portfolio as of June 30, 2018 and December 31, 2017, were as follows:

	June 30, 2018	December 31, 2017
	(in millions)	
Real estate		
Land	$259	$ 247
Lease intangibles	103	99
Accumulated amortization of lease intangibles	(7)	(5)
Real estate	$355	$ 341

In the first quarter of 2017, we purchased a portfolio of over 4,000 acres of land and related long-term triple net leases to over 20 individual solar projects with investment grade off-takers at a cost of approximately $145 million. Approximately $21 million (1,100 acres) of this real estate portfolio was acquired through an equity method investment in a joint venture that we account for under the equity method of accounting and approximately $56 million of our purchase price was allocated to intangible lease assets on a relative fair value basis. This transaction was accounted for as an asset acquisition.

As of June 30, 2018, the future amortization expense of the intangible assets and the future minimum rental income payments under our land lease agreements are as follows:

	Future Amortization Expense	Minimum Rental Income Payments
	(in millions)	
From July 1, 2018 to December 31, 2018	$ 2	$ 11
2019	3	21
2020	3	21
2021	3	21
2022	3	21
2023	3	23
Thereafter	79	762
Total	$ 96	$ 880

Deferred Funding Obligations

In accordance with the terms of purchase agreements relating to certain equity method investments, receivables and investments, payments of the purchase price are scheduled to be made over time and as a result, we have recorded deferred funding obligations of $98 million and $153 million as of June 30, 2018 and December 31, 2017, respectively. We have secured financing for, or placed in escrow, approximately $80 million and $90 million of the deferred funding obligations as of June 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, we had pledged approximately $29 million of our equity method investments as collateral for a deferred funding obligation of $20 million, which was fully funded in the second quarter of 2018.

The outstanding deferred funding obligations to be paid are as follows:

	Deferred Funding Obligations (in millions)
From July 1, 2018 to December 31, 2018	$ 41
2019	36
2020	16
2021	5
Total	$ 98

7. Credit Facility

We have a senior secured revolving credit facility which matures in July 2019. The facility provides for maximum cumulative advances of $1.5 billion with the aggregate amount outstanding at any point in time of $500 million and which consists of two components, the "G&I Facility" and the "PF Facility". The G&I Facility can be used to leverage certain qualifying government and institutional financings entered into by us and the PF Facility can be used to leverage certain qualifying project financings entered into by us.

The following table provides additional detail on our credit facility as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(dollars in millions)	
Outstanding balance	$ 103	$ 70
Value of collateral pledged to credit facility	291	252
Weighted average short-term borrowing rate	3.6 %	3.0 %

Loans under the G&I Facility bear interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.5% or, under certain circumstances, 1.5% plus the Base Rate. Loans under the PF Facility bear interest at a rate equal to LIBOR plus 2.5% or, under certain circumstances, 2.5% plus the Base Rate or as mutually agreed. The Base Rate is defined as the highest of (i) the Federal Funds Rate plus 0.5%, (ii) the rate of interest publicly announced by Bank of America from time to time as its "prime rate," (iii) LIBOR plus 1.0% and (iv) zero. Under the PF Facility, we also have the option to borrow at a fixed rate of interest until the expiration of the credit facility in July 2019. The fixed rate is determined by agreement with the administrative agent and is based on the prevailing US SWAP rate of an equivalent term to the average-life of the fixed rate portion of the borrowing plus an agreed upon margin. The loans are made through wholly-owned special purpose subsidiaries (the "Borrowers") and we have guaranteed the obligations of the Borrowers under the credit facility pursuant to (x) a Continuing Guaranty, dated July 19, 2013, and (y) a Limited Guaranty, dated July 19, 2013, both as amended and restated.

Any financing we propose to be included in the borrowing base as collateral under the facility is subject to the approval of the administrative agent in its sole discretion and the payment of a placement fee. We may, with the consent of the administrative agent, borrow against new projects before such projects become Approved Financings (as defined in the PF Facility loan agreement) but after they have been pledged as collateral. The amount eligible to be drawn under the facility for purposes of financing such investments will be based on a discount to the value of each investment or an applicable valuation percentage. Under the G&I Facility, the applicable valuation percentage for non-delinquent investments is 85% in the case of a U.S. federal government obligor, 80% in the case of an institutional obligor or a state and local obligor, and with respect to other obligors or in certain circumstances, such other percentage as the administrative agent may prescribe. Under the PF Facility, the applicable valuation percentage is 67% or such other percentage as the administrative agent may prescribe. The sum of approved financings after taking into account the valuation percentages and any changes in the valuation of the financings in accordance with the loan agreements determines the borrowing capacity, subject to the overall facility limits described above.

We have approximately $3 million of remaining unamortized costs associated with the credit facility that have been capitalized and included in other assets on our balance sheet, and are being amortized on a straight-line basis over the term of the credit facility. On each monthly payment date, the Borrowers shall also pay to the administrative agent, for the benefit of the lenders, certain availability fees for each loan agreement equal to 0.50%, divided by 360, multiplied by the excess of the available borrowing capacity under each component of the credit facility over the actual amount borrowed under such component.

The credit facility contains terms, conditions, covenants, and representations and warranties that are customary and typical for a transaction of this nature, including various affirmative and negative covenants, and limitations on the incurrence of liens and indebtedness, investments, fundamental organizational changes, dispositions, changes in the nature of business, transactions with affiliates, use of proceeds and stock repurchases. We were in compliance with our covenants as of June 30, 2018 and December 31, 2017.

The credit facility also includes customary events of default, including the existence of a default in more than 50% of underlying financings. The occurrence of an event of default may result in termination of the credit facility, acceleration of amounts due under the credit facility, and accrual of default interest at a rate of LIBOR plus 2.50% in the case of the G&I Facility and at a rate of LIBOR plus 5.00% in the case of the PF Facility.

8. Long-term Debt

Non-recourse debt

We have outstanding the following asset-backed non-recourse debt and bank loans:

	Outstanding Balance as of							Value of Assets Pledged as of		
	June 30, 2018	December 31, 2017	Interest Rate			Maturity Date	Anticipated Balance at Maturity	June 30, 2018	December 31, 2017	Description of Assets Pledged
	(dollars in millions)									
HASI Sustainable Yield Bond 2013-1	$67	$67	2.79	%		December 2019	$ 57	$ 87	$ 86	Receivables
ABS Loan Agreement	77	81	5.74	%		September 2021	17	67	79	Equity interest in Strong Upwind Holdings I, LLC
HASI Sustainable Yield Bond 2015-1A	92	94	4.28	%		October 2034	—	135	137	Receivables, real estate and real estate intangibles
HASI Sustainable Yield Bond 2015-1B Note	13	14	5.41	%		October 2034	—	135	137	Class B Bond of HASI Sustainable Yield Bond 2015-1
2017 Credit Agreement	145	180	4.12	%		January 2023	—	174	226	Equity interests in Strong Upwind Holdings I, II, III, and IV LLC, and Northern Frontier, LLC
HASI SYB Loan Agreement 2015-2	34	36	6.42	%	(1)	December 2023	—	70	68	Equity interest in Buckeye Wind Energy Class B Holdings LLC, related interest rate swap
HASI SYB Loan Agreement 2015-3	138	143	4.92	%		December 2020	127	168	171	Residential solar receivables, related interest rate swaps
HASI SYB Loan Agreement 2016-1	120	121	5.41	%	(1)	November 2021	106	142	143	Residential solar receivables, related interest rate swaps
HASI SYB Trust 2016-2	80	81	4.35	%		April 2037	—	85	86	Receivables
2017 Master Repurchase Agreement	47	35	5.00	%	(1)	July 2019	42	54	38	Receivables and investments
HASI ECON 101 Trust	134	134	3.57	%		May 2041	—	136	140	Receivables and investments
HASI SYB Trust 2017-1	161	162	3.86	%		March 2042	—	208	209	Receivables, real estate and real estate intangibles
Other non-recourse debt (2)	115	90	2.26% - 7.45%			2018 to 2046	18	177	162	Receivables
Debt issuance costs	(25)	(27)								

Non-recourse debt (3)	$ 1,198	$ 1,211

(1) Interest rate represents the current period's LIBOR based rate plus the spread. Also see the interest rate swap contracts shown in the table below, the value of which are not included in the book value of assets pledged or the interest rate of the debt instrument.

(2) Other non-recourse debt consists of various debt agreements used to finance certain of our receivables for their term. Debt service payment requirements, in a majority of cases, are equal to or less than the cash flows received from the underlying receivables.

(3) The total collateral pledged against our non-recourse debt was $1,503 million and $1,545 million as of June 30, 2018 and December 31, 2017, respectively. In addition, $68 million and $59 million of our restricted cash balance was pledged as collateral to various non-recourse loans as of June 30, 2018 and December 31, 2017, respectively.

We have pledged the financed assets, and typically our interests in one or more parents or subsidiaries of the borrower that are legally separate bankruptcy remote special purpose entities as security for the non-recourse debt. There is no recourse for repayment of these obligations other than to the applicable borrower and any collateral pledged as security for the obligations. Generally, the assets and credit of these entities are not available to satisfy any of our other debts and obligations. The creditors can only look to the borrower, the cash flows of the pledged assets and any other collateral pledged, to satisfy the debt and we are not otherwise liable for nonpayment of such cash flows. The debt agreements contain terms, conditions, covenants, and representations and warranties that are customary and typical for transactions of this nature, including limitations on the incurrence of liens and indebtedness, investments, fundamental organizational changes, dispositions, changes in the nature of business, transactions with affiliates, use of proceeds and stock repurchases. The agreements also include customary events of default, the occurrence of which may result in termination of the agreements, acceleration of amounts due, and accrual of default interest. We typically act as servicer for the debt transactions. We are in compliance with all covenants.

We have guaranteed the accuracy of certain of the representations and warranties and other obligations of certain of our subsidiaries under certain of the debt agreements and provided an indemnity against certain losses from "bad acts" of such subsidiaries including fraud, failure to disclose a material fact, theft, misappropriation, voluntary bankruptcy or unauthorized transfers. In the case of the debt secured by certain of our renewable energy equity interests, we have also guaranteed the compliance of our subsidiaries with certain tax matters and certain obligations if our joint venture partners exercise their right to withdraw from our partnerships.

In connection with several of our non-recourse debt borrowings, we have entered into the following interest rate swaps that are designated as cash flow hedges:

	Base Rate	Hedged Rate	Notional Value as of June 30, 2018	Notional Value as of December 31, 2017	Fair Value as of June 30, 2018	Fair Value as of December 31, 2017	Term
			(dollars in millions)				
HASI SYB Loan Agreement 2015-2	3 month Libor	1.52 %	$30	$ 31	$0.1	$ 0.1	December 2015 to December 2018
HASI SYB Loan Agreement 2015-2	3 month Libor	2.55 %	29	29	0.3	(0.2)	December 2018 to December 2024
HASI SYB Loan Agreement 2015-3	1 month Libor	2.34 %	119	119	2.3	—	November 2020 to August 2028
HASI SYB Loan Agreement 2016-1	3 month Libor	1.88 %	112	120	3.3	1.1	November 2016 to November 2021
HASI SYB Loan Agreement 2016-1	3 month Libor	2.73 %	107	107	0.9	(1.1)	November 2021 to October 2032
2017 Master Repurchase Agreement	3 month Libor	2.42 %	32	32	0.7	—	August 2019 to March 2033
Total			$429	$ 438	$7.6	$ (0.1)	

The fair values of our interest rate swaps designated and qualifying as effective cash flow hedges are reflected in our consolidated balance sheets as a component of other assets (if in an unrealized gain position) or accounts payable, accrued expenses and other (if in an unrealized loss position) and in net unrealized gains and losses in AOCI. As of June 30, 2018 and December 31, 2017, all of our derivatives were designated as hedging instruments which were deemed to be effective. The following is a presentation of the total balance of the financial statement line item related to our hedging activities in our consolidated statements of operations and the impact of our hedges that is included in this total balance.

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
	(in thousands)			
Total interest expense	$19,033	$15,361	$37,744	$29,144
Impact of hedging	(143)	264	$(88)	$597

The stated minimum maturities of non-recourse debt as of June 30, 2018, were as follows:

	Future minimum maturities (in millions)
July 1, 2018 to December 31, 2018	$ 43
2019	158
2020	180
2021	156
2022	27
2023	62

Thereafter	597
Total minimum maturities	$ 1,223
Deferred financing costs, net	(25)
Total non-recourse debt	$ 1,198

The stated minimum maturities of non-recourse debt above include only the mandatory minimum principal payments. To the extent there are additional cash flows received from our investments in renewable energy projects serving as collateral for certain of our non-recourse debt facilities, these additional cash flows are required to be used to make additional principal payments against the respective debt. Any additional principal payments made due to these provisions may impact the anticipated balance at maturity of these financings.

SunPower, which originated and services the residential solar leases that are the collateral for the HASI SYB Loan Agreement 2015-3, has provided us certain limited indemnities and warranties and as servicer, provides various services including billing, monitoring payments by homeowners to a third-party lockbox and customer service. The portfolios of residential solar leases are held in bankruptcy remote special purpose entities (“SPEs”) that are performing in line with our expectations and the SPEs, and not SunPower, are the source of repayment under our loans.

In June 2017, SunPower amended a loan agreement to remove a debt-to-EBITDA leverage covenant with which SunPower was not in compliance. Two of our loan agreements included the same debt-to-EBITDA covenant to monitor changes in SunPower’s credit, as is typical for a servicer. One of our loan agreements, HASI SYB Loan Agreement 2015-3, still contains this covenant and as a result our lender is entitled to apply approximately $1 million of the cash flow after payment of principal and interest each quarter to further reduce the principal balance on this loan. We continue to monitor the situation and anticipate having further discussions with our lenders and with SunPower but at the present time, do not anticipate any other impact.

Convertible Senior Notes

We issued $150 million aggregate principal amount ($145 million net of issuance costs) of 4.125% convertible senior notes due September 1, 2022. Holders may convert any of their convertible notes into shares of our common stock at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, unless the convertible notes have been previously redeemed or repurchased by us. The convertible notes are senior unsecured obligations of ours and have an initial conversion rate of 36.7107 shares for each $1,000 principal amount of convertible notes which is equal to a total of approximately 5.5 million shares with an initial conversion price of $27.24. The conversion rate is subject to adjustment for dividends declared above $0.33 per share per quarter and certain other events that may be dilutive to the holder. As of June 30, 2018, none of these dilutive events have occurred and the conversion rate remains at the initial rate.

Following the occurrence of a make-whole fundamental change, we will, in certain circumstances, increase the conversion rate for a holder that converts its convertible notes in connection with such make-whole fundamental change. There are no cash settlement provisions in the convertible notes and the conversion option can only be settled through physical delivery of our common stock. Additionally, upon the occurrence of certain fundamental changes involving us, holders of the convertible notes may require us to redeem all or a portion of their convertible notes for cash at a price of 100% of the principal amount outstanding, plus accrued and unpaid interest.

We have a redemption option to call the convertible notes prior to maturity (i) on or after March 1, 2022 and (ii) at any time if such a redemption is deemed reasonably necessary to preserve our qualification as a REIT. The redemption price will be equal to the principal of the notes being redeemed, plus accrued and unpaid interest. In the event of redemption after March 1, 2022, there will be an additional make-whole premium paid to the holder of the redeemed notes unless the redemption is deemed reasonably necessary to preserve our qualification as a REIT.

The following table presents a summary of the components of the convertible notes:

	June 30, 2018	December 31, 2017
	(in millions)	
Principal	$150	$ 150
Accrued interest	2	3
Less:		
Unamortized financing costs	(4)	(5)
Carrying value of convertible notes	$148	$ 148

During the three and six months ended June 30, 2018, we recorded $2 million and $4 million in interest expense related to the convertible notes, respectively.

9. Commitments and Contingencies

Litigation

The nature of our operations exposes us to the risk of claims and litigation in the normal course of our business. We are not currently subject to any legal proceedings that are probable of having a material adverse effect on our financial position, results of operations or cash flows.

10. Income Tax

We recorded a tax expense of approximately $0.2 million for the three and six months ended June 30, 2018 and $0.1 million for the three months and six months ended June 30, 2017. For the three and six months ended June 30, 2018 and 2017, our income tax expense was determined using federal rates of 21% and 35%, respectively, and combined state rates, net of federal benefit, of 3% and 5%, respectively.

The Tax Cuts and Jobs Act ("TCJA"), signed into law on December 22, 2017, made significant changes to the U.S federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. We have included a provision in our consolidated financial statements to estimate the impact of the TCJA, specifically including the impact of the change in rates on our deferred tax assets and liabilities. Additionally, the income and cash allocations received from our equity method investments in renewable energy projects are determined in part based on certain tax assumptions. As a result, certain of our partners' allocations in these projects may be affected by the changes that may impact our income allocations determined under the HLBV method. Therefore, we consider allocations from these equity method investments to be provisional. We made no measurement period adjustments related to the impact of changes as a result of the TCJA during the three and six months ended June 30, 2018. We continue to evaluate the impact of the TCJA and will finalize our assessment in 2018.

11. Equity

Dividends and Distributions

Our board of directors declared the following dividends in 2017 and 2018:

Announced Date	Record Date	Pay Date	Amount per share
3/15/2017	4/5/2017	4/13/2017	$ 0.33
6/1/2017	7/6/2017	7/13/2017	0.33
9/12/2017	10/5/2017	10/16/2017	0.33
12/12/2017	12/26/2017 (1)	1/11/2018	0.33
2/21/2018	4/4/2018	4/12/2018	0.33
5/31/2018	7/5/2018	7/12/2018	0.33

(1) This dividend was treated as a distribution in 2018 for tax purposes.

We have an effective universal shelf registration statement registering the potential offer and sale, from time to time and in one or more offerings, of any combination of our common stock, preferred stock, depositary shares, debt securities, warrants and rights (collectively referred to as the "securities"). We may offer the securities directly, through agents, or to or through underwriters by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices and may include "at the market" ("ATM") offerings or sales "at the market," to or through a market maker or into an existing trading market on an exchange or otherwise. We completed the following public offerings (including ATM issuances) of our common stock in 2017 and 2018:

Closing Date	Common Stock Offerings	Shares Issued (1)	Price Per Share		Net Proceeds (2)
		(amounts in millions, except per share amounts)			
1/20/17 to 2/2/17	ATM	0.197	$ 19.18	(3)	$ 4
3/10/17	Public Offering	3.450	18.73	(4)	64
5/17/17 to 6/22/17	ATM	1.376	22.71	(3)	31
5/18/18 to 6/25/18	ATM	0.834	18.76	(3)	15

(1) Includes shares issued in connection with the exercise of the underwriters' option to purchase additional shares.

(2) Net proceeds from the offerings is shown after deducting underwriting discounts, commissions and other offering costs.

(3) Represents the average price per share at which investors in our ATM offerings purchased our shares.

(4) Represents the price per share at which the underwriters in our public offerings purchased our shares.

Awards of Shares of Restricted Common Stock and Restricted Stock Units under our 2013 Plan

We have issued awards with service, performance and market conditions that vest from 2019 to 2021. During the six months ended June 30, 2018, our board of directors awarded employees and directors 548,633 shares of restricted stock and restricted stock units that vest from 2019 to 2021. As of June 30, 2018, as it relates to previously issued restricted stock awards with performance conditions, we have concluded that it is probable that the performance conditions will be met.

For the three and six months ended June 30, 2018, we recorded $3 million and $5 million, respectively, of equity-based compensation expense as compared to $3 million and $6 million, respectively, for the three and six months ended June 30, 2017. The total unrecognized compensation expense related to awards of shares of restricted stock and restricted stock units was approximately $15 million as of June 30, 2018. We expect to recognize compensation expense related to these awards over a weighted-average term of approximately 2 years. A summary of the unvested shares of restricted common stock that have been issued is as follows:

	Restricted Shares of Common Stock	Weighted Average Share Price	Value
			(in millions)
Ending Balance — December 31, 2016	1,181,672	$ 17.76	$ 21.0
Granted	452,864	19.06	8.6
Vested	(230,424)	14.41	(3.3)
Forfeited	(4,519)	18.72	(0.1)
Ending Balance — December 31, 2017	1,399,593	$ 18.73	$ 26.2
Granted	377,117	19.05	7.2
Vested	(368,712)	18.87	(7.0)
Forfeited	(95,230)	18.92	(1.8)
Ending Balance — June 30, 2018	1,312,768	$ 18.77	$ 24.6

A summary of the unvested shares of restricted stock units that have market based vesting conditions that have been issued is as follows:

	Restricted Stock Units	Weighted Average Share Price	Value
			(in millions)
Ending Balance — December 31, 2016	—	$ —	$ —
Granted	257,284	18.99	4.9
Vested	(376)	18.99	—
Forfeited	(1,202)	18.99	—
Ending Balance — December 31, 2017	255,706	$ 18.99	$ 4.9
Granted	171,516	20.24	3.4
Vested	(20,368)	18.99	(0.4)
Forfeited	(17,346)	19.01	(0.3)
Ending Balance — June 30, 2018	389,508	$ 19.54	$ 7.6

12.Earnings per Share of Common Stock

Both the net income or loss attributable to the non-controlling OP units and the non-controlling limited partners' outstanding OP units have been excluded from the basic earnings per share and the diluted earnings per share calculations attributable to common stockholders. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method.

The computation of basic and diluted earnings per common share of common stock is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Numerator:	2018	2017	2018	2017
	(in millions, except share and per share data)			
Net income (loss) attributable to controlling stockholders and participating securities	$17.3	$ 12.3	$16.0	$ 19.5
Less: Dividends paid on participating securities	(0.4)	(0.4)	(0.9)	(0.9)
Undistributed earnings attributable to participating securities	—	—	—	—
Net income (loss) attributable to controlling stockholders	$16.9	$ 11.9	$15.1	$ 18.6
Denominator:				
Weighted-average number of common shares — basic	52,051,253	50,573,996	51,882,091	49,044,051
Weighted-average number of common shares — diluted	52,051,253	50,573,996	51,882,091	49,044,051
Basic earnings per common share	$0.32	$ 0.23	0.29	0.38
Diluted earnings per common share	$0.32	$ 0.23	0.29	0.38
Other Information:				
Weighted-average number of OP units	281,289	284,992	282,619	284,992
Unvested restricted common stock outstanding (i.e. participating securities)			1,312,761	1,416,629

13. Equity Method Investments

We have non-controlling unconsolidated equity investments in renewable energy projects. We recognized income from our equity method investments of $10.6 million and $8.3 million during the three and six months ended June 30, 2018, respectively, as compared to income of $8.4 million and $12.5 million during the three and six months ended June 30, 2017.

The following is a summary of the consolidated financial position and results of operations of the significant entities accounted for using the equity method.

	Buckeye Wind Energy Class B Holdings, LLC	MM Solar Parent, LLC	Helix Fund I, LLC	Other Investments (1)	Total
	(in millions)				
Balance Sheet					
As of March 31, 2018					
Current assets	$3	$ 2	$ 1	$ 10	$16
Total assets	283	84	28	210	605
Current liabilities	1	5	—	13	19
Total liabilities	11	35	—	36	82
Members' equity	272	49	28	174	523
As of December 31, 2017					
Current assets	3	3	1	16	23
Total assets	286	85	28	219	618
Current liabilities	1	5	—	22	28
Total liabilities	11	37	—	45	93
Members' equity	275	48	28	174	525
Income Statement					
For the three months ended March 31, 2018					
Revenue	4	3	—	5	12
Income from continuing operations	(1)	1	—	(1)	(1)
Net income	(1)	1	—	(1)	(1)
For the three months ended March 31, 2017					
Revenue	3	3	—	5	11
Income from continuing operations	(2)	1	—	(4)	(5)
Net income	(2)	1	—	(4)	(5)

(1) Represents aggregated financial statement information for investments not separately presented.

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

In this Form 10-Q, unless specifically stated otherwise or the context otherwise indicates, references to "we," "our," "us," and "HASI" refer to Hannon Armstrong Sustainable Infrastructure Capital, Inc., a Maryland corporation, Hannon Armstrong Sustainable Infrastructure, L.P., and any of our other subsidiaries. Hannon Armstrong Sustainable Infrastructure, L.P. is a Delaware limited partnership of which we are the sole general partner and to which we refer in this Form 10-Q as our "Operating Partnership."

The following discussion is a supplement to and should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes and with our Annual Report on Form 10-K for the year ended December 31, 2017 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2017 (collectively, our "2017 Form 10-K") that was filed with the SEC.

Our Business

We provide capital and services focused on reducing climate changing greenhouse gas emissions ("GHG" or carbon emissions) as well as mitigating the impact of, or increasing resiliency to, climate change. We focus primarily on the energy efficiency, renewable energy and other sustainable infrastructure markets. Our goal is to generate attractive returns for our stockholders by investing capital in assets or projects that generate long-term, recurring and predictable cash flows or cost savings from proven technologies. We also provide services to the various partners and counterparties in the markets where we invest.

We are internally managed, and our management team has extensive relevant industry knowledge and experience, dating back more than 30 years. We have long-standing relationships with the leading energy service companies ("ESCOs"), manufacturers, project developers, utilities, owners and operators. Our origination strategy is to use these relationships to generate recurring, programmatic investment and fee generating opportunities. Additionally, we have relationships with the leading banks, investment banks, and institutional investors from which we receive additional investment and fee generating opportunities.

Our investments are focused on three markets:

- Energy efficiency projects: projects, typically undertaken by ESCOs, which reduce a building's or facility's energy usage or cost by improving or installing various building components, including heating, ventilation and air conditioning systems ("HVAC systems"), lighting, energy controls, roofs, windows, building shells, and/or combined heat and power systems;
- Renewable energy projects: projects that deploy cleaner energy sources, such as solar and wind to generate power production; and
- Other sustainable infrastructure: upgraded transmission or distribution systems, water and storm water infrastructure, seismic retrofits and other projects, that improve water or energy efficiency, increase energy system resiliency, positively impact the environment or more efficiently use natural resources.

We make equity investments in renewable energy projects operated by various renewable energy companies. These transactions allow us to participate in the cash flows associated with these projects, typically on a priority basis. We make debt investments in energy efficiency projects, which reduce the amount or cost of energy usage, and may also make debt investments in various projects or portfolios of projects. We are usually assigned the payment stream and other contractual rights, often using our pre-existing master purchase agreements with the ESCOs. Our investments are generally also secured by the installed improvements or other real estate rights. We also own over 23,000 acres of land that are leased under long-term agreements to over 45 renewable energy projects, which we have recorded in our financial statements as real estate, and also have rights to payments from land leases for a diversified portfolio of over 50 wind and solar projects, which we have recorded in our financial statements as commercial receivables. We also have an equity method investment in a joint venture that owns land leased to several solar projects.

We focus on projects that use proven technology and that often have contractually committed agreements with an investment grade rated off-taker or counterparties. The off-taker or counterparty may be part of the wholesale electric power grid ("Grid Connected" or "GC") such as a utility or electric user who has entered into a contractually committed agreement, such as a power purchase agreement ("PPA"), to purchase some, or all of, the power produced by a renewable energy project at a minimum price with potential price escalators for a portion of the project's estimated life. In the case of distributed (building or facility specific) projects, which we refer to as 'behind-the-meter'

(“Behind-the-Meter” or “BTM”), the off-taker or counterparty may be the building owner or occupant, and we may be secured by the installed improvements or other real estate rights.

While we prefer investments in which we hold a senior or preferred position in a project, as our markets evolve and grow, we are seeing increasing opportunities to invest in mezzanine debt or common equity in projects where we are subordinated to project debt and, or, preferred forms of equity. We also generate on-going fees through gain-on-sale securitization transactions, advisory services and asset management.

We completed approximately $200 million and $308 million of transactions during the three and six months ended June 30, 2018 compared to approximately $400 million and $690 million during the same periods in 2017. As of June 30, 2018, pursuant to our strategy of holding transactions on our balance sheet, we held approximately $2.0 billion of transactions on our balance sheet, which we refer to as our “Portfolio”. As of June 30, 2018, our Portfolio consisted of over 175 investments and we seek to manage the diversity of our Portfolio by, among other factors, project type, project operator, type of investment, type of technology, transaction size, geography, obligor and maturity.

We believe we have available to us a broad range of financing sources that allow us to use borrowings as part of our financing strategy to increase potential returns to our stockholders. We may finance our investments through the use of non-recourse or recourse debt and equity. We have worked to expand our liquidity and access to the debt and bank loan markets and have entered into transactions with a number of new lenders and insurance companies over the past several years. We may also decide to finance transactions through the use of off-balance sheet securitization structures where we transfer all or a portion of the economics of the transaction, typically using securitization trusts, to institutional investors in exchange for upfront revenues and in some cases, ongoing fees for managing the assets. As a result of increases in short term interest rates without a corresponding increase in long term rates which has resulted in a reduction in the difference in yield between short term interest rates and long-term interest rates known as a flattening of the yield curve, we will likely increase our use of these securitization structures in the short to mid-term. As of June 30, 2018, we managed approximately $2.9 billion in assets in these securitization trusts or vehicles that are not consolidated on our balance sheet. When combined with our Portfolio, as of June 30, 2018, we manage approximately $4.9 billion of assets which we refer to as our managed assets.

We have a large and active pipeline of potential new opportunities that are in various stages of our underwriting process. We refer to potential opportunities as being part of our pipeline if we have determined that the project fits within our investment strategy and exhibits the appropriate risk/reward characteristics through an initial credit analysis, including a quantitative and qualitative assessment of the opportunity, as well as research on the market and sponsor. Our pipeline of transactions that could potentially close in the next 12 months consists of opportunities in which we will be the lead originator as well as projects in which we may participate with other institutional investors. As of June 30, 2018, our pipeline consisted of more than $2.5 billion in new debt and equity opportunities. There can, however, be no assurance that any or all of the transactions in our pipeline will be completed in the next 12 months, or at all, or with regard to any specific terms of such pipeline transactions.

As part of our investment process, we calculate the estimated metric tons of CO2 equivalent emissions, or carbon emissions avoided by our investments. In this calculation, which we refer to as CarbonCount®, we apply emissions factor data from the U.S. Government or the International Energy Agency to an estimate of a project’s energy production or savings to compute an estimate of metric tons of carbon emissions avoided. In addition to carbon emissions, investments are also screened for other environmental benefits such as water use reduction.

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 and operate our business in a manner that will permit us to continue to maintain our exemption from registration as an investment company under the 1940 Act.

Factors Impacting our Operating Results

We expect that our results of operations will be affected by a number of factors and will primarily depend on the size of our Portfolio, including the mix of transactions which we hold in our Portfolio, the income we receive from securitizations, syndications and other services, our Portfolio’s credit risk profile, changes in market interest rates, commodity prices, federal, state and/or municipal governmental policies, general market conditions in local, regional and national economies and our ability to qualify as a REIT and maintain our exemption from registration as an investment company under the 1940 Act. We provide a summary of the factors impacting our operating results in our 2017 Form 10-K under MD&A – Factors Impacting our Operating Results.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. Understanding our accounting policies and the extent to which we make judgments and estimates in applying these policies is integral to understanding our financial statements.

We have identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies govern:

- Consolidation and equity method investments
- Government and commercial receivables
- Real estate
- Investments
- Securitization of receivables

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions. We provide additional information on our critical accounting policies and use of estimates under Item 7. MD&A—Critical Accounting Policies and Use of Estimates in our 2017 Form 10-K and under Note 2 of this Form 10-Q.

Financial Condition and Results of Operation

Our Portfolio

Our Portfolio totaled approximately $2.0 billion as of June 30, 2018, and included approximately $1.0 billion of behind-the-meter assets, approximately $0.9 billion of grid-connected assets and approximately $0.1 billion of other sustainable infrastructure investments. Approximately 22% of our Portfolio consisted of unconsolidated equity ownership of renewable energy related projects and approximately 19% of our Portfolio was real estate used in renewable energy projects. The remainder consisted of fixed rate government and commercial receivables and debt securities which we generally refer to as debt investments. Our Portfolio consisted of approximately 175 transactions with an average size of $11 million and the weighted average remaining life of our Portfolio (excluding match-funded transactions) of approximately 12 years as of June 30, 2018.

Our Portfolio included the following as of June 30, 2018:

- Equity investments in either preferred or common structures in unconsolidated entities;
- Government and commercial receivables, such as loans for renewable energy and energy efficiency projects;
- Real estate, such as land or other assets leased for use by sustainable infrastructure projects typically under long term leases; and
- Investments in debt securities of renewable energy or energy efficiency projects.

The table below provides details on the interest rate and maturity of our receivables and investments as of June 30, 2018:

	Balance (in millions)	Maturity
Fixed-rate receivables, interest rates less than 5.00% per annum (1)	$ 419	2018 to 2046
Fixed-rate receivables, interest rates from 5.00% to 6.50% per annum (2)	390	2020 to 2046
Fixed-rate receivables, interest rates greater than 6.50% per annum	171	2019 to 2069
Receivables	980	
Allowance for credit losses	—	
Receivables, net of allowance	980	
Fixed-rate investments, interest rates of less than 5.00% per annum	138	2019 to 2043
Fixed-rate investments, interest rates from 5.00% to 6.50% per annum	16	2028 to 2048
Total receivables and investments	$ 1,134	

(1) Excludes fixed-rate receivables held-for-sale of $2 million.

(2) Excludes fixed-rate receivables held-for-sale of $16 million.

The table below presents, for each major category of our Portfolio and the related interest-bearing liabilities, the average outstanding balances, investment income earned, the interest expense incurred, and average yield or cost. Our earnings from our equity method investments are not included in total revenue and thus we have excluded our equity method investments and

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the related earnings and interest expense from these calculations. Our net investment margin represents the difference between the interest and rental income generated by our Portfolio and the interest expense, divided by our average Portfolio balance.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in millions)			
Interest income, receivables	$13	$14	$26	$28
Average monthly balance of receivables	$978	$995	$980	$1,014
Average interest rate from receivables	5.2 %	5.5 %	5.2 %	5.5 %
Interest income, investments	$2	$1	$3	$2
Average monthly balance of investments	$157	$128	$155	$108
Average interest rate of investments	4.1 %	4.3 %	4.0 %	4.2 %
Rental income	$6	$5	$12	$9
Average monthly balance of real estate	$341	$282	$340	$257
Average yield on real estate	7.0 %	6.9 %	7.0 %	7.0 %
Average monthly balance of Portfolio	$1,475	$1,405	$1,476	$1,379
Average yield from Portfolio	5.5 %	5.7 %	5.5 %	5.7 %
Interest expense (1)	$15	$12	$29	$22
Average monthly balance of debt (1)	$1,243	$1,001	$1,234	$953
Average interest rate from debt (1)	4.8 %	4.6 %	4.7 %	4.6 %
Average interest spread (1)	0.7 %	1.1 %	0.8 %	1.1 %
Net investment margin (1)	1.5 %	2.4 %	1.5 %	2.5 %

(1) Excludes the non-recourse debt used to finance the equity method investments in the renewable energy projects because our earnings from these equity investments are not included in total revenue.

The following table provides a summary of our anticipated principal repayments for our receivables and investments as of June 30, 2018:

	Payment due by Period				
	Total	Less than 1 year	1-5 years	5-10 years	More than 10 years
	(in millions)				
Receivables (1)	$980	$ 26	$153	$285	$ 516
Investments	154	67	15	21	51

(1) Excludes receivables held-for-sale of $18 million.

See Note 6 to our financial statements in this Form 10-Q for information on:

- the anticipated maturity dates of our receivables and investments and the weighted average yield for each range of maturities as of June 30, 2018,
- the term of our leases and a schedule of our future minimum rental income under our land lease agreements as of June 30, 2018,
- the credit quality of our Portfolio, and
- the receivables on non-accrual status.

For information on our residual assets relating to our securitization trusts, see Note 5 to our financial statements in this Form 10-Q. The residual assets do not have a contractual maturity date and the underlying securitized assets have contractual maturity dates until 2046.

Results of Operations

Comparison of the Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017

	Three Months Ended June 30, 2018	2017	$ Change	% Change
	(dollars in millions)			
Revenue				
Interest income, receivables	$ 13	$ 14	$ (1)	(7)%
Interest income, investments	2	1	1	100 %
Rental income	6	5	1	20 %
Gain on sale of receivables and investments	14	7	7	100 %
Fee income	1	1	—	— %
Total revenue	36	28	8	29 %
Expenses				
Interest expense	19	15	4	27 %
Compensation and benefits	6	6	—	— %
General and administrative	4	3	1	33 %
Total expenses	29	24	5	21 %
Income before equity method investments	7	4	3	75 %
Income (loss) from equity method investments	11	8	3	38 %
Income (loss) before income taxes	18	12	6	50 %
Income tax (expense) benefit	—	—	—	— %
Net income (loss)	$ 18	$ 12	$ 6	50 %

- Net income increased by approximately $6 million as a result of a $8 million increase in total revenue and a $3 million increase in income from equity method investments, offset by a $5 million increase in total expenses. These results do not reflect the non-GAAP core earnings adjustment applied to our equity method investments, which is discussed in the non-GAAP financial measures section below.
- Total revenue grew by $8 million as gain on sale of receivables and investments and fee income grew by $7 million primarily due to increased securitization activity during the three months ended June 30, 2018, when compared to the same period in 2017. Slightly higher interest income from investments and rental income offset slightly lower interest income from receivables for a net increase of $1 million as compared to the same period in the prior year.
- Interest expense increased by $4 million primarily due to higher average outstanding borrowings, including higher fixed rate debt and an increase in interest rates during the three months ended June 30, 2018, when compared to the same period in 2017.
- Compensation and benefits were flat in the quarter, while general and administrative expenses increased by $1 million due to an increase in the size of the company.
- Income from equity method investments increased by $3 million due primarily to one-time allocations of income through HLBV as a result of changes in tax law.

Comparison of the Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017

	Six Months Ended June 30, 2018	2017	$ Change	% Change
	(dollars in millions)			
Revenue				
Interest income, receivables	$26	$ 28	$ (2)	(7)%
Interest income, investments	3	2	1	50 %
Rental income	12	9	3	33 %
Gain on sale of receivables and investments	20	12	8	67 %
Fee income	3	1	2	200 %
Total revenue	64	52	12	23 %
Expenses				
Interest expense	38	29	9	31 %
Compensation and benefits	12	11	1	9 %
General and administrative	6	5	1	20 %
Total expenses	56	45	11	24 %
Income before equity method investments	8	7	1	14 %
Income (loss) from equity method investments	8	13	(5)	(38)%
Income (loss) before income taxes	16	20	(4)	(20)%
Income tax (expense) benefit	—	—	—	— %
Net income (loss)	$16	$ 20	$ (4)	(20)%

- Net income decreased by approximately $4 million as a result of a $12 million increase in total revenue, offset by a $5 million decrease in income from equity method investments and a $11 million increase in total expenses. These results do not reflect the non-GAAP core earnings adjustment applied to our equity method investments, which is discussed in the non-GAAP financial measures section below.
- Total revenue grew by $12 million as gain on sale of receivables and investments and fee income grew by $10 million, primarily due to an increase in securitization activity during the six months ended June 30, 2018, when compared to the same period in 2017. Slightly higher interest income from investments and rental income offset slightly lower interest income from receivables for a net increase of $2 million.
- Interest expense increased by $9 million primarily due to higher average outstanding borrowings, including higher fixed rate debt and an increase in interest rates during the six months ended June 30, 2018, when compared to the same period in 2017.
- Compensation and benefits and general and administrative expenses increased by $2 million due to an increase in the size of the company.
- Income from equity method investments decreased by $5 million due primarily to the recognition of our portion of a project-level write-down which was recognized in the first quarter from one of our renewable energy investments.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) core earnings and (2) managed assets. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as measures of our operating performance. These non-GAAP financial measures, as calculated by us, may not be comparable to similarly named financial measures as reported by other companies that do not define such terms exactly as we define such terms.

Core Earnings

We calculate core earnings as GAAP net income (loss) excluding non-cash equity compensation expense, non-cash provision for credit losses, amortization of intangibles, any one-time acquisition related costs or non-cash tax charges and the earnings attributable to our non-controlling interest of our Operating Partnership. We also make an adjustment to our equity method investments in the renewable energy projects as described below. In the future, core earnings may also exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as approved by a majority of our independent directors.

Certain of our equity method investments in renewable energy projects are structured using typical partnership “flip” structures where we, along with any other institutional investors, if any, receive a pre-negotiated preferred return consisting of priority distributions from the project cash flows, in many cases, along with tax attributes. Once this preferred return is achieved, the partnership “flips” and the renewable energy company, which operates the project, receives more of the cash flows through its equity interests while we, and any other institutional investors, retain an ongoing residual interest. We typically negotiate the purchase prices of our equity investments, which have a finite expected life, based on our assessment of the expected cash flows we will receive from these projects discounted back to the net present value, based on a target investment rate, with the expected cash flows to be received in the future reflecting both a return on the capital (at the investment rate) and a return of the capital we have committed to the project. We use a similar approach in the underwriting of our receivables.

Under GAAP, we account for these equity method investments utilizing the HLBV method. Under this method, we recognize income or loss based on the change in the amount each partner would receive, typically based on the negotiated profit and loss allocation, if the assets were liquidated at book value, after adjusting for any distributions or contributions made during such quarter. The HLBV allocations of income or loss are also impacted by the receipt of tax attributes, as tax equity investors are allocated losses in proportion to the tax benefits received, while the sponsors of the project are allocated gains of a similar amount. In addition, the agreed upon allocations of the project’s cash flows may differ materially from the profit and loss allocation used for the HLBV calculations.

The cash distributions for our equity method investments are segregated into a return on and return of capital on our cash flow statement based on the cumulative income (loss) that has been allocated using the HLBV method. However, as a result of the application of the HLBV method, including the impact of tax allocations, the high levels of depreciation and other non-cash expenses that are common to renewable energy projects and the differences between the agreed upon profit and loss and the cash flow allocations, the distributions and thus the economic returns (i.e. return on capital) achieved from the investment are often significantly different from the income or loss that is allocated to us under the HLBV method. Thus, in calculating core earnings, we further adjust GAAP net income (loss) to take into account our calculation of the return on capital (based upon the investment rate) from our renewable energy equity method investments, as adjusted to reflect the performance of the project and the cash distributed. We believe this core equity method investment earnings adjustment to our GAAP net income (loss) in calculating our core earnings measure is an important supplement to the HLBV income allocations determined under GAAP for an investor to understand the economic performance of these investments.

For the three and six months ended June 30, 2018, we recognized income of $11 million and $8 million, respectively under GAAP for our equity investments in renewable energy projects. We reversed the GAAP income and recorded $10 million and $21 million, our core equity method investment earnings adjustments discussed above, to reflect our return on capital from these investments for the three and six months ended June 30, 2018, respectively. This compares to the collected cash distributions from these equity method investments of approximately $40 million and $70 million, for the three and six months ended June 30, 2018, with the difference between core earnings and cash collected representing a return of capital.

We believe that core earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable companies with fewer or no non-cash charges and comparison of our own operating results from period to period. Our management uses core earnings in this way. We believe that our investors also use core earnings, or a comparable supplemental performance measure, to evaluate and compare our performance to that of our peers, and as such, we believe that the disclosure of core earnings is useful to our investors.

However, core earnings does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (loss) (determined in accordance with GAAP), or an indication of our cash flow from operating activities (determined in accordance with GAAP), or a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating core earnings may differ from the methodologies employed by other

REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported core earnings may not be comparable to similar metrics reported by other REITs.

We have calculated our core earnings for the three and six months ended June 30, 2018 and June 30, 2017. The table below provides a reconciliation of our GAAP net income (loss) to core earnings:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	$	Per Share	$	Per Share	$	Per Share	$	Per Share
	(dollars in thousands, except per share amounts)							
Net income (loss) attributable to controlling stockholders	$17,262	$0.32	$12,340	$0.23	$16,039	$0.29	$19,539	$0.38
Core earnings adjustments:								
Reverse GAAP (income) loss from equity method investments	(10,583)		(8,377)		(8,298)		(12,548)	
Add back core equity method investments earnings	9,912		10,191		20,504		19,539	
Non-cash equity-based compensation charges	3,379		2,984		5,225		5,553	
Amortization of intangibles	785		658		1,567		1,165	
Current year earnings attributable to non-controlling interest	91		70		86		114	
Core earnings (1)	$20,846	$0.39	$17,866	$0.34	$35,123	$0.65	$33,362	$0.66

(1) Core earnings per share is based on 54,076,462 shares and 53,814,625 shares for the three and six months ended June 30, 2018 and 52,561,081 shares and 50,830,442 shares for the three and six months ended June 30, 2017, which represents the weighted average number of fully-diluted shares outstanding including our restricted stock awards and restricted stock units and the non-controlling interest in our Operating Partnership. We include any potential common stock issuance in this calculation related to our convertible notes using the treasury stock method.

Managed Assets

As we both consolidate assets on our balance sheet and securitize assets, certain of our receivables and other assets are not reflected on our balance sheet where we may have a residual interest in the performance of the investment, such as servicing rights or a retained interest in cash flows. Thus, we present our investments on a non-GAAP “managed” basis, which assumes that securitized receivables are not sold. We believe that our managed asset information is useful to investors because it portrays the amount of both on- and off-balance sheet receivables that we manage, which enables investors to understand and evaluate the credit performance associated with our portfolio of receivables, investments and residual assets in securitized receivables reported on our consolidated balance sheet. Our non-GAAP managed assets measure may not be comparable to similarly titled measures used by other companies.

The following is a reconciliation of our GAAP Portfolio to our managed assets:

	As of	
	June 30, 2018	December 31, 2017
	(dollars in millions)	
Equity method investments	$461	$523
Government receivables	512	519
Commercial receivables	468	474
Receivables held-for sale	18	19
Real estate	355	341
Investments	154	151
Assets held in securitization trusts	2,948	2,709
Managed Assets	$4,916	$4,736
Credit losses as a percentage of assets under management	0.0 %	0.0 %

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential short term (within one year) and long term cash requirements, including ongoing commitments to repay borrowings, fund and maintain our current and future assets, make distributions to our stockholders and other general business needs. We will use significant cash to make investments in sustainable infrastructure, repay principal and interest on our borrowings, make distributions to our stockholders and fund our operations. We use borrowings as part of our financing strategy to increase potential returns to our stockholders and have available to us a broad range of financing sources. We finance our investments through the use of equity and non-recourse or recourse debt, including off-balance sheet securitization structures.

In July 2013, we entered into a $350 million senior secured revolving credit facility with maximum cumulative advances of $700 million. Since that time, we have entered into a number of amendments, including in June 2017, intended to increase the flexibility and borrowing capability under the credit facility and to extend the maturity date for an additional year to July 2019. As of June 30, 2018, we have used $103 million of the $500 million of borrowing capacity and have utilized approximately $1.3 billion of the maximum cumulative advances of $1.5 billion.

As of June 30, 2018, we had approximately $1.2 billion of non-recourse borrowings, as well as $150 million in outstanding convertible senior notes. We also continue to utilize off-balance sheet securitization transactions, where we transfer the loans or other assets we originate to securitization trusts or other bankruptcy remote special purpose funding vehicles that are not consolidated on our balance sheet. As of June 30, 2018, the outstanding principal balance of our assets financed through the use of these off-balance sheet transactions was approximately $2.9 billion.

Large institutional investors, primarily insurance companies and commercial banks, have provided the financing for these non-recourse and off-balance sheet financings. We continue to provide details on the greenhouse gas emissions ("GHG") saved by our investments and believe that investors increasingly are interested in investments that have a measurable GHG savings. We have worked to expand our liquidity and access to the debt and bank loan markets and have entered into transactions with a number of new lenders and insurance companies over the past several years. For further information on the credit facility, asset backed non-recourse debt, convertible notes, and securitizations, see Notes 5, 7 and 8 to our financial statements of this Form 10-Q.

We plan to raise additional equity capital and continue to use fixed and floating rate borrowings which may be in the form of additional bank credit facilities (including term loans and revolving facilities), warehouse facilities, repurchase agreements and public and private equity and debt issuances as a means of financing our business. We also expect to use both on-balance sheet and non-consolidated securitizations and also believe we will be able to customize securitized tranches to meet investment preferences of different investors. We may also consider the use of separately funded special purpose entities or funds to allow us to expand the investments that we make.

The decision on how we finance specific assets or groups of assets is largely driven by capital allocations and risk and portfolio and financial management considerations, including the potential for gain on sale or fee income, as well as the overall interest rate environment, prevailing credit spreads and the terms of available financing and market conditions. Over time, as market conditions change, we may use other forms of debt and equity in addition to these financings arrangements.

The amount of leverage we may deploy for particular assets will depend upon the availability of particular types of financing and our assessment of the credit, liquidity, price volatility and other risks of those assets, the interest rate environment and the credit quality of our financing counterparties. As shown in the table below, our debt to equity ratio was approximately 2.2 to 1 as of June 30, 2018, which is below our target ratio of 2.5 to 1. We will continue to evaluate the appropriate level of debt and may, over time, incur additional debt which will allow us to achieve our targeted debt levels. Our percentage of fixed rate debt was approximately 89% as of June 30, 2018, above the high end of our targeted fixed rate debt percentage range of approximately 60% to 85%, in anticipation of a trend to higher interest rates.

The calculation of our debt at fixed rates and leverage is shown in the chart below:

	June 30, 2018 (dollars in millions)	% of Total		December 31, 2017 (dollars in millions)	% of Total	
Floating-rate borrowings	$ 159	11	%	$ 110	8	%
Fixed-rate debt	1,290	89	%	1,318	92	%
Total debt [(1)]	$ 1,449	100	%	$ 1,428	100	%
Equity	$ 646			$ 643		
Leverage	2.2 to 1			2.2 to 1		

(1) Floating-rate borrowings include borrowings under our floating-rate credit facility and approximately $56 million and $40 million of non-recourse debt with floating rate exposure as of June 30, 2018 and December 31, 2017, respectively. Approximately $32 million of the June 30, 2018 and December 31, 2017 floating rate exposure is hedged beginning in 2019. Fixed-rate debt also includes the present notional value of non-recourse debt that is hedged using interest rate swaps. Debt excludes securitizations that are not consolidated on our balance sheet.

We intend to use leverage for the primary purpose of financing our Portfolio and business activities and not for the purpose of speculating on changes in interest rates. While we may temporarily exceed the leverage or fixed rate debt targets, if our board of directors approves a material change to these targets, we anticipate advising our stockholders of this change through disclosure in our periodic reports and other filings under the Exchange Act.

While we generally intend to hold our target assets that we do not securitize upon acquisition as long term investments, certain of our investments may be sold in order to manage our interest rate risk and liquidity needs, to meet other operating objectives and to adapt to market conditions. The timing and impact of future sales of receivables and investments, if any, cannot be predicted with any certainty. Since we expect that our assets will generally be financed, we expect that a significant portion of the proceeds from sales of our assets (if any), prepayments and scheduled amortization will be used to repay balances under our financing sources.

We believe these identified sources of liquidity in addition to our cash on hand will be adequate for purposes of meeting our short term and long-term liquidity needs, which include funding future investments, operating costs and distributions to our stockholders. To qualify as a REIT, we must distribute annually at least 90% of our REIT's taxable income without regard to the deduction for dividends paid and excluding net capital gains. These dividend requirements limit our ability to retain earnings and thereby replenish or increase capital for growth and our operations.

Sources and Uses of Cash

We had approximately $110 million and $118 million of unrestricted cash, cash equivalents, and restricted cash as of June 30, 2018 and December 31, 2017, respectively.

Cash flows relating to operating activities

Net cash provided by operating activities was approximately $15 million for the six months ended June 30, 2018, driven primarily by net income of $16 million, offset by adjustments for non-cash and other items of $1 million. The non-cash and other adjustments consisted of increases of $6 million related to equity method investments, $7 million of depreciation and amortization, $3 million related to receivables held-for-sale, and $5 million related to equity-based compensation. These were offset by $16 million related to gains on securitizations and $6 million related to accounts payable, accrued expenses, and other items.

Net cash provided by operating activities was approximately $14 million for six months ended June 30, 2017, driven primarily by net income of $20 million offset by adjustments for non-cash and other items of $6 million. The non-cash and other adjustments consisted of increases of $6 million of depreciation and amortization, $6 million related to equity based compensation, and $2 million of change in accounts payable and accrued expenses. These were offset by $13 million related to gains on securitizations and $7 million related to equity method investments and other items.

Cash flows relating to investing activities

Net cash provided by investing activities was approximately $40 million for six months ended June 30, 2018. We made $10 million of investments in receivables and fixed rate debt-securities, made $16 million of investments in real estate, funded escrow accounts for $22 million and had $1 million of other outflows. We collected $56 million from equity method investments representing the return of capital determined under GAAP, $18 million from receivables and fixed rate debt securities, and withdrew $15 million from escrow accounts.

Net cash used in investing activities was $289 million for the six months ended June 30, 2017. We made $215 million of equity method investments, $119 million of investments in real estate, $92 million of investments in receivables and fixed rate debt-securities and had $5 million of other outflows. We collected $57 million from receivables and fixed rate debt securities, $34 million from equity method investments representing the return of capital determined under GAAP and $51 million from sales of receivables.

Cash flows relating to financing activities

Net cash used in financing activities was approximately $63 million for the six months ended June 30, 2018. We had non-recourse debt borrowings of $47 million, borrowings from our credit facility of $33 million, and received $15 million of net proceeds from the issuance of common stock. We made $62 million of principal payments on non-recourse debt, and $57 million of payments on deferred funding obligations and paid $39 million of dividends, distributions and other.

Net cash provided by financing activities was approximately $322 million for the six months ended June 30, 2017. We borrowed $278 million from our credit facilities and $258 million of non-recourse debt. We received proceeds of $98 million from the issuance of our common stock. We made payments of $169 million on our credit facilities, $28 million of principal payments on non-recourse debt, $73 million of deferred funding obligations and $42 million of dividends, distributions and other.

Off-Balance Sheet Arrangements

We have relationships with non-consolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate the sale of securitized assets. Other than our securitization assets (including any outstanding servicer advances) of approximately $62 million as of June 30, 2018, that may be at risk in the event of defaults or prepayments in our securitization trusts and breaches of the accuracy of certain limited representations and, warranties and breaches of covenants regarding our activities with regard to certain of our interests, we have not guaranteed any obligations of non-consolidated entities or entered into any commitment or intent to provide additional funding to any such entities. A more detailed description of our relations with non-consolidated entities can be found in Note 2 of our financial statements included in this Form 10-Q.

Dividends

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income. Our current policy is to pay quarterly distributions, which on an annual basis will equal or exceed substantially all of our REIT taxable income. Any distributions we make will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations. These results and our ability to pay distributions will be affected by various factors, including the net interest and other income from our portfolio, our operating expenses and any other expenditures. In the event that our board of directors determines to make distributions in excess of the income or cash flow generated from our assets, we may make such distributions from the proceeds of future offerings of equity or debt securities or other forms of debt financing or the sale of assets. To the extent that in respect of any calendar year, cash available for distribution is less than our taxable income, or our declared distribution we could be required to sell assets, borrow funds, or raise additional capital to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We will generally not be required to make distributions with respect to activities conducted through our domestic TRSs.

To the extent that we generate taxable income, distributions to our stockholders generally will be taxable as ordinary income, although all or a portion of such distributions may be designated by us as a qualified dividend or capital gain. Beginning in 2018 (and through taxable years ending in 2025), a deduction is permitted for certain pass-through business income, including “qualified REIT dividends” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), which will allow U.S. individuals, trusts, and estates to deduct up to 20% of such amounts, subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such qualified REIT dividends. In the event we make distributions to our stockholders in excess of our taxable income, the excess will constitute a return of capital. In addition, a portion of such distributions may be taxable stock dividends payable in our shares. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain.

The dividends declared in 2017 and 2018 are described under Note 11 to our financial statements in this Form 10-Q.

Book Value Considerations

As of June 30, 2018, we carried only our investments, interest rate swaps and residual assets in securitized receivables (included in other assets) at fair value on our balance sheet. As a result, in reviewing our book value, there are a number of important factors and limitations to consider. Other than our investments, interest rate swaps and the residual assets in securitized receivables that are carried on our balance sheet at fair value as of June 30, 2018, the carrying value of our remaining assets and liabilities are calculated as of a particular point in time, which is largely determined at the time such assets and liabilities were added to our balance sheet using a cost basis in accordance with GAAP. As such, our remaining assets and liabilities do not incorporate other factors that may have a significant impact on their value, most notably any impact of business activities, changes in estimates, or changes in general economic conditions, interest rates or commodity prices since the dates the assets or liabilities were initially recorded. Accordingly, our book value does not necessarily represent an estimate of our net realizable value, liquidation value or our market value as a whole.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We anticipate that our primary market risks will be related to, the credit quality of our counterparties and project companies, market interest rates, the liquidity of our assets, and commodity prices. We will seek to manage these risks while, at the same time, seeking to provide an opportunity to stockholders to realize attractive returns through ownership of our common stock.

Credit Risks

We source and identify quality opportunities within our broad areas of expertise and apply our rigorous underwriting processes to our transactions, which, we believe, will generally enable us to minimize our credit losses and keep financing costs low. While we do not anticipate facing significant credit risk in our assets related to government energy efficiency projects, we are subject to varying degrees of credit risk in these projects in relation to guarantees provided by ESCOs where payments under energy savings performance contracts are contingent upon achieving pre-determined levels of energy savings. We are also exposed to credit risk in our other projects that do not benefit from governments as obligors such as on balance sheet financing of projects undertaken by universities, schools and hospitals, as well as privately owned commercial projects. In the case of various renewable energy and other sustainable infrastructure projects, we will also be exposed to the credit risk of the obligor of the project’s PPA or other long-term contractual revenue commitments, as well as to the credit risk of certain suppliers and project operators. Our level of credit risk has increased, and is expected to further increase, as our strategy increasingly includes mezzanine debt, real estate or equity investments. We seek to manage credit risks using thorough due diligence and underwriting processes, strong structural protections in our transaction agreements with customers and continual, active asset management and portfolio monitoring. Nevertheless, unanticipated credit losses could occur and during periods of economic downturn in the global economy, our exposure to credit risks from obligors increases, and our efforts to monitor and mitigate the associated risks may not be effective in reducing our credit risks. Additional detail of the credit risks surrounding our Portfolio can be found in Note 6 of our financial statements included in this Form 10-Q.

Interest Rate and Borrowing Risks

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

We are subject to interest rate risk in connection with new asset originations and our borrowings, including our credit facility, and in the future, any new floating rate assets, credit facilities or other borrowings. Because short-term borrowings are generally short-term commitments of capital, lenders may respond to market conditions, making it more difficult for us to secure continued financing. If we are not able to renew our then existing borrowings or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under any of these borrowings, we may have to curtail our origination of new assets and/or dispose of assets. We face particular risk in this regard given that we expect many of our borrowings will have a shorter duration than the assets they finance. Increasing interest rates may reduce the demand for our investments while declining interest rates may increase the demand. Both our current and future credit facilities and other borrowings may be of limited duration and are periodically refinanced at then current market rates. We attempt to reduce interest rate risks and to minimize exposure to interest rate fluctuations through the use of fixed rate financing structures, when appropriate, whereby we seek to (1) match the maturities of our debt obligations with the maturities of our assets, (2) borrow at fixed rates for a period of time, like in our asset backed securitizations, or (3) match the interest rates on our assets with like-kind debt (i.e., we may finance floating rate assets with floating rate debt and fixed-rate assets with fixed-rate debt), directly or through the use of interest rate swap agreements, interest rate cap agreements or other financial instruments, or through a combination of these strategies. We expect these instruments will allow us to minimize, but not eliminate, the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates on our earnings. In addition to the use of traditional derivative instruments, we also seek to mitigate interest rate risk by using securitizations, syndications and other techniques to construct a portfolio with a staggered maturity profile. We monitor the impact of interest rate changes on the market for new originations and often have the flexibility to negotiate the term of our investments to offset interest rate increases.

Typically, our long-term debt is at fixed rates or we have used interest rate hedges that convert the majority of the floating rate debt to fixed rate. If interest rates rise, and our fixed rate debt balance remains constant, we expect the fair value of our fixed rate debt to decrease and the value of our hedges on floating rate debt to increase. See Note 3 to our financial statements in this Form 10-Q for the estimated fair value of our fixed rate long-term debt, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates. We carry our interest rate hedges at fair value in our balance sheet as described in Note 8 to our financial statements in this Form 10-Q.

Our credit facility contains variable rate loans with approximately $103 million outstanding as of June 30, 2018 and we have approximately $56 million of variable rate exposure under our non-recourse debt. Significant increases in interest rates would result in higher interest expense while decreases in interest rates would result in lower interest expense. As described above, we may use various financing techniques including interest rate swap agreements, interest rate cap agreements or other financial instruments, or a combination of these strategies to mitigate the variable interest nature of this facility. A 50 basis point increase in LIBOR would increase the quarterly interest expense related to the $159 million in variable rate borrowings by $0.2 million. Such hypothetical impact of interest rates on our variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of such a change in interest rates, we may take actions to further mitigate our exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the analysis assumes no changes in our financial structure.

We record certain of our assets at fair value in our financial statements and any changes in the discount rate would impact the value of these assets. See Note 3 of the financial statements in this Form 10-Q.

Liquidity and Concentration Risk

The assets that comprise our asset portfolio are not and will not be publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. The illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions. Each of our projects typically have one obligor and thus we are subject to concentration risk and could incur significant losses if any of these projects perform poorly or if we are required to write down the value of any of these projects. See also “Credit Risks” above.

Commodity Price Risk

When we make debt or equity investments for a renewable energy project that acts as a substitute for an underlying commodity, we may be exposed to volatility in prices for that commodity. As we increase the amount of our investment in renewable energy projects, our exposure to commodity price risk will increase as well. For example, the performance of renewable energy projects that produce electricity can be impacted by volatility in the market prices of various forms of energy, including electricity, coal and natural gas. This is especially true for utility scale projects that sell power on a wholesale basis such as many of our wind projects as opposed to distributed renewable projects or energy efficiency projects which compete against the retail or delivered costs of electricity which includes the cost of transmitting and distributing the electricity to the end user.

Although we generally focus on renewable energy projects that have the majority of their operating cash flow supported by long term PPAs, to the extent that the projects have shorter term contracts (which may have the potential of producing higher current returns) or sell their power in the open market on a merchant basis, the cash flows of such projects, and thus the repayment of, or the returns available for, our assets, are subject to risk if energy prices change. We also attempt to mitigate our exposure through structural protections. These structural protections, which are typically in the form of a preferred return mechanism, are designed to allow recovery of our capital and an acceptable return over time. When structuring and underwriting these transactions, we evaluate these transactions using a variety of scenarios, including natural gas prices remaining low for an extended period of time. Despite these protections, as low natural gas prices continue or PPAs expire, the cash flows from certain of our projects are exposed to these market conditions and we work with the projects sponsors to minimize any impact as part of our on-going active asset management and portfolio monitoring. In the case of utility scale solar projects, we focus on owning the land under the project where our rent is paid out of project operational costs before the debt or equity in the project receives any payments.

We believe the current low prices in natural gas will increase demand for some types of our projects, such as combined heat and power, but may reduce the demand for other projects such as renewable energy that may be a substitute for natural gas. We seek to structure our energy efficiency investments so that we typically avoid exposure to commodity price risk. However, volatility in energy prices may cause building owners and other parties to be reluctant to commit to projects for which repayment is based upon a fixed monetary value for energy savings that would not decline if the price of energy declines.

Risk Management

Our ongoing active asset management and portfolio monitoring processes provide investment oversight and valuable insight into our origination, underwriting and structuring processes. These processes create value through active monitoring of the state of our markets, enforcement of existing contracts and receivables management. Subject to maintaining our qualification as a REIT, and as described above, we engage in a variety of interest rate management techniques that seek to mitigate the economic effect of interest rate changes on the values of, and returns on, some of our assets. While there has only been one credit loss, amounting to approximately $11 million (net of recoveries) on the over $4 billion of transactions we originated since 2012, which represents an aggregate loss of less than approximately 0.3% on cumulative transactions originated over this time period, there can be no assurance that we will continue to be as successful, particularly as we invest in more credit sensitive assets or more equity positions and engage in increasing numbers of transactions with obligors other than U.S. federal government agencies. We seek to manage credit risk using thorough due diligence and underwriting processes, strong structural protections in our loan agreements with customers and continual, active asset management and portfolio monitoring. Additionally, we have established a Finance and Risk Committee of our board of directors which discusses and reviews policies and guidelines with respect to our risk assessment and risk management for various risks, including, but not limited to, our interest rate, counter-party, credit, capital availability and refinancing risks.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of June 30, 2018, the Company's disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Exchange Act and the rules and regulations promulgated thereunder.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the three month period ended June 30, 2018, that have materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in various claims and legal actions in the ordinary course of business. As of June 30, 2018, we are not currently subject to any legal proceedings that are likely to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information in Item 1A. "Risk Factors" of our 2017 Form 10-K, filed with the SEC, which is accessible on the SEC's website at www.sec.gov.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the six months ended June 30, 2018, certain of our employees surrendered common stock owned by them to satisfy their federal and state tax obligations associated with the vesting of their restricted stock awards.

The table below summarizes all of our repurchases of common stock during 2018. These repurchases are related to the surrender of common stock by certain of our employees to satisfy their tax and other compensation related withholdings associated with the vesting of restricted stock. The price paid per share is based on the closing price of our common stock as of the date of the withholding.

Period	Total number of shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
February 2018	2,879	20.54	N/A	N/A
March 2018	97,206	18.13	N/A	N/A
May 2018	63,822	19.08	N/A	N/A

We exchanged 3,703 OP units held by our non-controlling interest holders for the same number of shares of our common stock during the six months ended June 30, 2018.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit number	Exhibit description
3.1	Articles of Amendment and Restatement of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant’s Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
3.2	Bylaws of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant’s Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
3.3	Amended and Restated Agreement of Limited Partnership of Hannon Armstrong Sustainable Infrastructure, L.P. (incorporated by reference to Exhibit 3.3 to the Registrant’s Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
4.1	Specimen Common Stock Certificate of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant’s Form S-11 (No. 333-186711), filed on April 12, 2013)
4.2	Indenture, dated as of August 22, 2017, between Hannon Armstrong Sustainable Infrastructure Capital, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant’s Form 8-K (No. 001-35877), filed on August 22, 2017)
4.3	First Supplemental Indenture, dated as of August 22, 2017, between Hannon Armstrong Sustainable Infrastructure Capital, Inc. and U.S. Bank National Association, as Trustee (including the form of 4.125% Convertible Senior Note due 2022) (incorporated by reference to Exhibit 4.2 to the Registrant’s Form 8-K (No. 001-35877), filed on August 22, 2017)
10.1	Letter Agreement, dated as of April 5, 2018, between M. Rhem Wooten, Hannon Armstrong Sustainable Infrastructure Capital, Inc. and Hannon Armstrong Capital Inc. (incorporated by reference to Exhibit 10.1 to the Registrant’s Form 10-Q for the quarter ended March 31, 2018 (No. 001-35877), filed on May 4, 2018)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to section 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to section 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101. PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC. (Registrant)
Date: August 3, 2018	/s/ Jeffrey W. Eckel Jeffrey W. Eckel Chairman, Chief Executive Officer and President
Date: August 3, 2018	/s/ Charles W. Melko Charles W. Melko Chief Accounting Officer and Senior Vice President