**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2013**

**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) 571-6161**

**(Registrant s telephone number, including area code)**

**N/A**

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

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

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 x No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 16,529,881 shares of common stock, par value $0.01 per share, outstanding as of May 23, 2013.

Table of Contents

**EXPLANATORY NOTE**

The financial statements covered in this quarterly report of Hannon Armstrong Sustainable Infrastructure Capital, Inc. ( HASI ) present the balance sheet of HASI as of March 31, 2013 and the financial condition and results of operations of HASI s predecessor, Hannon Armstrong Capital, LLC (the Predecessor ), the entity which operated the historical business prior to the consummation of HASI s initial public offering of its shares of common stock (the IPO ) in April 2013. HASI did not conduct any activity prior to the IPO and the Predecessor became an indirect subsidiary of HASI upon closing of various formation transactions completed concurrently with the completion of the IPO. The information provided in this report only reflects the financial condition of the Predecessor as of March 31, 2013 and December 31, 2012. The condensed consolidated financial data for the Predecessor is not necessarily indicative of HASI s results of operations, cash flows or financial position following the completion of the IPO and formation transactions.

HASI is a self-advised and self-administered real estate investment trust that was organized in the state of Maryland on November 7, 2012 to provide debt and equity financing for sustainable infrastructure projects that increase energy efficiency, provide cleaner energy sources, positively impact the environment or make more efficient use of natural resources. HASI completed its IPO on April 23, 2013. The IPO resulted in the sale of 13,333,333 shares of common stock, at a price per share of $12.50 and generated net proceeds of $155.4 million after deducting underwriting discounts. HASI intends to utilize the net proceeds from the IPO and its permanent equity capital base to continue to broaden the types of projects historically undertaken by the Predecessor and enhance its financial structuring flexibility, while retaining a larger share of the economics for future financings than was traditionally kept by the Predecessor. HASI intends to operate as a real estate investment trust for U.S. federal income tax purposes, commencing with its taxable year ending December 31, 2013.

**Table of Contents**

**TABLE OF CONTENTS**

**Table of Contents**

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

### HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.

### CONSOLIDATED BALANCE SHEETS

### AS OF MARCH 31, 2013 and DECEMBER 31, 2012

| | March 31, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Cash | $ 6,000 | $ 6,000 |
| **Liabilities and Stockholders Equity** | | |
| Deposits | $ 5,000 | $ 5,000 |
| Stockholders Equity | | |
| Common stock | $ 10 | $ 10 |
| Additional paid in capital | 990 | 990 |
| Total Stockholders Equity | $ 1,000 | $ 1,000 |
| **Total Liabilities and Stockholders Equity** | $ 6,000 | $ 6,000 |

*See accompanying notes.*

Table of Contents

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

**NOTES TO CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**1. Organization**

Hannon Armstrong Sustainable Infrastructure Capital, Inc. ( HASI ) is a self-advised and self-administered real estate investment trust that was organized in the state of Maryland on November 7, 2012 to provide debt and equity financing for sustainable infrastructure projects that increase energy efficiency, provide cleaner energy sources, positively impact the environment or make more efficient use of natural resources. HASI completed the IPO of its common stock on April 23, 2013. The IPO resulted in the sale of 13,333,333 shares of common stock, at a price per share of $12.50. The net proceeds to HASI from the IPO were approximately $155.4 million, after deducting underwriting discounts. HASI did not conduct any activity prior to the IPO and the Predecessor became an indirect subsidiary of HASI upon closing of various formation transactions completed concurrently with the completion of the IPO. HASI intends to utilize the net proceeds from the IPO and its permanent equity capital base to continue to broaden the types of projects historically undertaken by the Predecessor and enhance its financial structuring flexibility, while retaining a larger share of the economics for future financings than was traditionally kept by the Predecessor. HASI intends to operate as a REIT for U.S. federal income tax purposes, commencing with the portion of its taxable year ending December 31, 2013.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting* The balance sheets have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). Separate statements of operations, comprehensive income, changes in equity and of cash flows have not been presented in the financial statement because there have been no activities of this entity.

The consolidated balance sheets include the accounts of HASI and its operating partnership and controlled subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P. (the Operating Partnership ). All significant intercompany balances have been eliminated in consolidation.

*Deposit* Represents $5,000 paid by an officer for subscribed units of the Hannon Armstrong Sustainable Infrastructure, L.P. issued prior to the IPO and completion of the formation transactions.

**3. Stockholders Equity**

Several individuals, who are officers of the Predecessor, contributed $1,000 in the aggregate to HASI at the time of formation.

**4. Organizational and Offering Costs**

Costs related to corporation and partnership filing costs, audit fees related to the initial registration and initial balance sheet audit and various legal start-up costs incurred prior to the commencement of the IPO were paid directly by Hannon Armstrong Capital, LLC and HASI will reimburse Hannon Armstrong Capital, LLC for these costs after completion of the IPO. As the results of HASI will be combined with the Predecessor, the impact of reimbursements will not impact the reported results of the consolidated entities.

Such costs fall into one of two categories. Costs related to HASI s IPO, such as Securities Exchange Commission ( SEC ) registration fees, legal and accounting costs, typesetting and printing costs, and federal and state registration fees, are classified as offering costs and will be charged to additional paid-in-capital upon completion of the IPO. All other costs that are not deemed offering costs will be expensed.

**5. Subsequent Events**

On April 23, 2013, HASI completed its IPO of 13,333,333 shares of common stock priced at $12.50 per share. The common stock is listed on the New York Stock Exchange under the symbol HASI . The net proceeds to

**Table of Contents**

HASI from the IPO were approximately $155.4 million, after deducting underwriting discounts. On May 17, 2013, the underwriters exercised their option to purchase an additional 818,356 shares of common stock for additional net proceeds after deducting underwriting discounts of $9.5 million.

At the time of the IPO, HASI completed a series of transactions, which are referred to as the formation transactions that resulted in the Predecessor, becoming an indirect subsidiary of HASI. The formation transactions included the exchange by the existing owners of the Predecessor, directly or indirectly, by merger or equity contribution, of their equity interests in the Predecessor for shares of HASI common stock or units of limited partner interest (  OP units  ) in the Operating Partnership

- 3 -

Table of Contents

**HANNON ARMSTRONG CAPITAL LLC**

**(PREDECESSOR OF HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.)**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Investment in financing receivables | $ 192,251,894 | $ 191,398,717 |
| Securitization assets | 5,873,268 | 6,230,948 |
| Cash and cash equivalents | 3,316,510 | 8,024,271 |
| Restricted cash | 55,000 | 55,000 |
| Due from affiliates | 55,296 | 309,967 |
| Intangible assets, net | 1,882,521 | 1,970,313 |
| Goodwill | 3,798,411 | 3,798,411 |
| Other assets | 4,367,911 | 997,943 |
| **Total Assets** | **$ 211,600,811** | **$ 212,785,570** |
| **Liabilities and members equity** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 6,931,734 | $ 6,812,575 |
| Credit facility | 3,641,477 | 4,169,818 |
| Nonrecourse debt | 196,603,665 | 195,952,169 |
| Total Liabilities | 207,176,876 | 206,934,562 |
| Members equity: | | |
| Series A Participating Preferred Units | | |
| Class A Common Units | 68,400 | 68,400 |
| Retained earnings | 4,291,643 | 5,510,466 |
| Accumulated other comprehensive income | 63,892 | 272,142 |
| Total members equity | 4,423,935 | 5,851,008 |
| **Total liabilities and members equity** | **$ 211,600,811** | **$ 212,785,570** |

*See accompanying notes.*

Table of Contents

**HANNON ARMSTRONG CAPITAL LLC**

**(PREDECESSOR OF HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.)**

**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**(UNAUDITED)**

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Net Investment Revenue: | | |
| Income from financing receivables | $ 2,710,824 | $ 2,633,126 |
| Investment interest expense | (2,236,289) | (2,140,320) |
| **Net Investment Revenue** | **474,535** | **492,806** |
| Other Investment Revenue: | | |
| Gain on securitization of receivables | | 1,095,057 |
| Fee income | 280,864 | 424,829 |
| **Other Investment Revenue** | **280,864** | **1,519,886** |
| **Total Revenue, net of investment interest expense** | **755,399** | **2,012,692** |
| Compensation and benefits | (1,151,794) | (1,376,379) |
| General and administrative | (689,689) | (461,481) |
| Depreciation and amortization of intangibles | (104,635) | (111,408) |
| Other interest expense | (48,636) | (75,421) |
| Other income | 1,547 | 14,157 |
| Unrealized gain on derivative instruments | 18,985 | 14,795 |
| Loss from equity method investment in affiliate | | (313,723) |
| Other Expenses, net | (1,974,222) | (2,309,460) |
| **Net Loss** | **$ (1,218,823)** | **$ (296,768)** |

*See accompanying notes.*

**Table of Contents**

**HANNON ARMSTRONG CAPITAL LLC**

**(PREDECESSOR OF HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.)**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(UNAUDITED)**

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Net loss | $ (1,218,823) | $ (296,768) |
| Unrealized loss on residual assets | (208,250) | (147,486) |
| Comprehensive Loss | $ (1,427,073) | $ (444,254) |

*See accompanying notes.*

- 6 -

Table of Contents

**HANNON ARMSTRONG CAPITAL LLC**

**(PREDECESSOR OF HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.)**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| **Cash flows from operating activities** | | |
| Net loss | $ (1,218,823) | $ (296,768) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Undistributed loss from equity method investment in affiliate | | 313,723 |
| Unrealized gain on derivative instrument | (18,985) | (14,795) |
| Depreciation and amortization of intangibles | 104,635 | 111,408 |
| Noncash gain on securitizations | | (8,179) |
| Amortization of servicing assets | 155,300 | 173,926 |
| Change in securitization residual assets | (5,870) | 76,185 |
| Changes in other assets and liabilities: | | |
| Accounts payable and accrued expenses | 138,144 | (4,019,977) |
| Other | (3,386,811) | 2,924 |
| Net cash used in operating activities | (4,232,410) | (3,661,553) |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | | (109,198) |
| Investment in equity method affiliate | | (876,034) |
| Advances to affiliates | 254,671 | (36,129) |
| Proceeds from marketable securities | | 507,316 |
| Purchase of marketable securities | | (254,068) |
| Decrease in restricted cash | | 195,815 |
| Investment in financing receivables | (8,620,470) | (67,476,207) |
| Principal collections from financing receivables | 7,767,293 | 7,920,298 |
| Net cash used in investing activities | (598,506) | (60,128,207) |
| **Cash flows from financing activities** | | |
| Proceeds from nonrecourse debt | 8,632,322 | 67,600,421 |
| Principal payments on nonrecourse debt | (7,980,826) | (8,047,013) |
| Principal payments on credit facility | (528,341) | (652,846) |
| Net cash provided by financing activities | 123,155 | 58,900,562 |
| Decrease in cash and cash equivalents | (4,707,761) | (4,889,198) |
| Cash and cash equivalents at beginning of period | 8,024,271 | 7,644,162 |
| **Cash and cash equivalents at end of period** | **$ 3,316,510** | **$ 2,754,964** |

*See accompanying notes.*

- 7 -

Table of Contents

**HANNON ARMSTRONG CAPITAL, LLC**

**(PREDECESSOR OF HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**MARCH 31, 2013**

**1. The Predecessor**

Hannon Armstrong Capital, LLC (the Predecessor ) is the predecessor of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI) a specialty finance company that provides debt and equity financing for sustainable infrastructure projects that increase energy efficiency, provide cleaner energy sources, positively impact the environment or make more efficient use of natural resources. The Predecessor commenced operations in October 2000 as successor to its former parent, Hannon Armstrong & Company.

On April 23, 2013, HASI completed its initial public offering ( IPO ) of 13,333,333 shares of common stock priced at $12.50 per share. The common stock is listed on the New York Stock Exchange under the symbol HASI . The net proceeds to the HASI from the IPO were approximately $155.4 million, after deducting underwriting discounts. On May 17, 2013, the underwriters exercised their option to purchase an additional 818,356 shares of common stock for additional net proceeds after deducting underwriting discounts of $9.5 million.

As part of the IPO, HASI completed a series of transactions, which are referred to as the formation transactions, that resulted in the Predecessor becoming a subsidiary of HASI and that will enable HASI to qualify as a REIT.

The significant elements of the formation transactions included:

- the exchange by the existing owners of the Predecessor, directly or indirectly by merger or equity contribution, of their equity interests in the entities that own the Predecessor for shares of HASI common stock or OP units in the operating partnership; and

- the repayment of the credit facility and the related swap discussed in Note 7.

The accompanying condensed consolidated financial statements of the Predecessor reflect the financial statements of the Predecessor, and do not reflect the effect of the IPO or the formation transactions that occurred in April 2013. They also do not reflect the material changes to the business of the Predecessor as a result of the capital raised in the IPO to continue to broaden the types of projects historically undertaken by the Predecessor and enhance its financial structuring flexibility, while retaining a larger share of the economics for future financings.

The Predecessor s and its subsidiaries principal business is providing or arranging financing of sustainable infrastructure projects supported by the projects cash flows. The Predecessor and its subsidiaries finance their business through the securitization of the receivables or through the use of nonrecourse debt. The Predecessor also generates fee income for arranging financings that are held directly on the balance sheet of other investors, by providing broker/dealer or other financing related services to sustainable infrastructure project developers and by servicing the Predecessor s managed assets. The Predecessor s subsidiaries are typically special purpose entities ( SPEs ) that are formed for specific operations associated with financing sustainable infrastructure receivables for specific long-term contracts.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The condensed consolidated financial statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations,

**Table of Contents**

comprehensive loss and cash flows for the periods presented. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. Certain information and footnote disclosures normally included in our annual consolidated financi