

SOLARCITY CORP
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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: 001-35758

SolarCity Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

02-0781046
(I.R.S. employer
Identification No.)

3055 Clearview Way

San Mateo, California
(Address of principal executive offices)

94402
(Zip Code)

(650) 638-1028

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of July 31, 2014 was 92,691,651.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The discussion in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are any statements that look to future events and consist of, among other things, our business strategies; anticipated future financial results; expected trends in certain financial and operating metrics; our belief that tracking the aggregate megawatt, or MW, production capacity of our systems is an indicator of the growth rate of our solar energy systems business; projections on growth in the markets that we operate and our growth rates; pricing trends, including our ability to achieve economies of scale in both installation and capital costs; our proposed acquisition of Silevo, Inc., including our ability to successfully integrate its business, operations and personnel and achieve manufacturing economies of scale and associated cost reductions; our belief that adequate surplus capacity of non-tariff solar panels is available to suit our future needs and the costs of solar energy system components; projections relating to our use of and reliance on U.S. Treasury grants and federal, state and local incentives and tax attributes; our regulatory status as a non-utility; our ability to continue to meet the regulatory requirements of a public company; expansion and hiring plans; product development efforts and customer preferences; the fair market value of our solar energy systems, including amounts potentially payable to our fund investors as a result of decreased fair market value determinations by the U.S. Treasury Department; the life and durability of our solar systems and equipment, and anticipated contract renewals; the success of our sales and marketing efforts; the performance of our SolarStrong project; our plans to sell Zep Solar products; our internal control environment and our remediation efforts with respect to our material weaknesses; the payment of future dividends; and our belief as to the sufficiency of our existing cash and cash equivalents, funds available under our secured credit facilities and funds available under existing financing funds to meet our working capital and operating resource requirements for the next 12 months.

The forward-looking statements are contained principally in, but not limited to, the sections titled Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as may, believe, will, could, anticipate, would, might, potentially, estimate, continue, plan, expect, intend, and the negative of these terms or other comparable terminology that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of a number of factors, including those set forth below in Risk Factors, and in our other reports filed with the U.S. Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all 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 we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or publically release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SolarCity Corporation****Condensed Consolidated Balance Sheets****(In Thousands, Except Share Par Values)**

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 405,261	\$ 577,080
Restricted cash	24,060	19,182
Accounts receivable (net of allowances for doubtful accounts of \$1,225 and \$955 as of June 30, 2014 and December 31, 2013, respectively)	22,268	23,011
Rebates receivable	24,819	20,131
Inventories	143,917	111,394
Deferred income tax asset	9,619	9,845
Prepaid expenses and other current assets	43,971	27,020
Total current assets	673,915	787,663
Restricted cash	301	301
Solar energy systems, leased and to be leased net	2,109,343	1,682,521
Property and equipment net	29,149	22,407
Goodwill and intangible assets net	266,996	278,169
Other assets	62,607	38,473
Total assets(1)	\$ 3,142,311	\$ 2,809,534
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 141,845	\$ 121,556
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	11,788	20,390
Current portion of deferred U.S. Treasury grants income	15,331	15,340
Accrued and other current liabilities	83,297	72,157
Customer deposits	7,167	8,828
Current portion of deferred revenue	77,206	59,899
Current portion of long-term debt	136,170	7,422
Current portion of solar asset-backed notes	5,948	3,155
Current portion of lease pass-through financing obligation	32,161	29,041
Current portion of sale-leaseback financing obligation	433	418

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Total current liabilities	511,346	338,206
Deferred revenue, net of current portion	496,003	410,161
Long-term debt, net of current portion	264,665	238,612
Convertible senior notes	230,000	230,000
Solar asset-backed notes, net of current portion	114,993	49,780
Long-term deferred tax liability	9,019	9,238
Lease pass-through financing obligation, net of current portion	56,463	64,167
Sale-leaseback financing obligation, net of current portion	14,117	14,338
Deferred U.S. Treasury grants income, net of current portion	405,168	412,469
Other liabilities and deferred credits	173,568	193,439
Total liabilities(1)	2,275,342	1,960,410
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests in subsidiaries	123,926	44,709
Stockholders' equity:		
Common stock, \$0.0001 par value authorized, 1,000,000 shares as of June 30, 2014 and December 31, 2013; issued and outstanding, 92,523 and 91,009 shares as of June 30, 2014 and December 31, 2013, respectively	10	10
Additional paid-in capital	869,722	819,914
Accumulated deficit	(274,041)	(202,326)
Total stockholders' equity	595,691	617,598
Noncontrolling interests in subsidiaries	147,352	186,817
Total equity	743,043	804,415
Total liabilities and equity	\$ 3,142,311	\$ 2,809,534

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- (1) SolarCity Corporation s, or the Company s, consolidated assets as of June 30, 2014 and December 31, 2013 include \$1,099,199 and \$823,165, respectively, being assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. These assets include solar energy systems, leased and to be leased net, of \$1,010,998 and \$759,148 as of June 30, 2014 and December 31, 2013, respectively; cash and cash equivalents of \$48,421 and \$35,141 as of June 30, 2014 and December 31, 2013, respectively; restricted cash, short term, of \$459 and \$115 as of June 30, 2014 and December 31, 2013, respectively; accounts receivable, net, of \$6,677 and \$4,802 as of June 30, 2014 and December 31, 2013, respectively; prepaid expenses and other assets of \$7,855 and \$3,831 as of June 30, 2014 and December 31, 2013, respectively; rebates receivable of \$22,277 and \$17,351 as of June 30, 2014 and December 31, 2013, respectively; and other assets of \$2,512 and \$2,777 as of June 30, 2014 and December 31, 2013, respectively. The Company s consolidated liabilities as of June 30, 2014 and December 31, 2013 include \$21,760 and \$32,029, respectively, being liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries of \$11,788 and \$20,390 as of June 30, 2014 and December 31, 2013, respectively; customer deposits of \$3,946 and \$5,291 as of June 30, 2014 and December 31, 2013, respectively; accrued liabilities and other payables of \$426 and \$615 as of June 30, 2014 and December 31, 2013, respectively; and bank borrowings of \$5,600 and \$5,733 as of June 30, 2014 and December 31, 2013, respectively.

See further description in Note 9, *VIE Arrangements*.

See accompanying notes.

Table of Contents**SolarCity Corporation****Condensed Consolidated Statements of Operations****(In Thousands, Except Share and Per Share Amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Operating leases and solar energy systems incentives	\$ 43,181	\$ 20,608	\$ 72,253	\$ 35,697
Solar energy systems and components sales	18,153	17,341	52,627	32,240
Total revenue	61,334	37,949	124,880	67,937
Cost of revenue:				
Operating leases and solar energy systems incentives	20,826	6,794	36,805	12,546
Solar energy systems and components sales	17,635	23,014	50,417	39,721
Total cost of revenue	38,461	29,808	87,222	52,267
Gross profit	22,873	8,141	37,658	15,670
Operating expenses:				
Sales and marketing	55,771	21,344	102,621	39,223
General and administrative	38,387	21,917	71,398	38,028
Research and development	3,000	349	4,923	609
Total operating expenses	97,158	43,610	178,942	77,860
Loss from operations	(74,285)	(35,469)	(141,284)	(62,190)
Interest expense net	12,892	5,421	20,871	11,740
Other expense net	1,307	162	1,332	302
Loss before income taxes	(88,484)	(41,052)	(163,487)	(74,232)
Income tax benefit (provision)	24	(25)	(191)	80
Net loss	(88,460)	(41,077)	(163,678)	(74,152)
Net (loss) income attributable to noncontrolling interests and redeemable noncontrolling interests	(40,808)	(1,614)	(91,963)	6,228
Net loss attributable to stockholders	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)

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<i>Net loss attributable to common stockholders</i>				
Basic	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)
Diluted	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)
<i>Net loss per share attributable to common stockholders</i>				
Basic	\$ (0.52)	\$ (0.52)	\$ (0.78)	\$ (1.06)
Diluted	\$ (0.52)	\$ (0.52)	\$ (0.78)	\$ (1.06)
<i>Weighted average shares used to compute net loss per share attributable to common stockholders</i>				
Basic	92,251,767	76,529,698	91,833,936	75,861,802
Diluted	92,251,767	76,529,698	91,833,936	75,861,802

See accompanying notes.

Table of Contents**SolarCity Corporation****Condensed Consolidated Statements of Cash Flows****(In Thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	\$ (163,678)	\$ (74,152)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss on disposal of property and equipment and construction in progress	1,227	18
Depreciation and amortization net of amortization of deferred U.S. Treasury grant income	39,982	15,627
Interest on lease pass-through financing obligation	5,807	6,869
Stock-based compensation	28,891	7,552
Deferred income taxes	7	3
Reduction in lease pass-through financing obligation	(23,041)	(14,239)
Changes in operating assets and liabilities:		
Restricted cash	(4,878)	(1,591)
Accounts receivable	743	641
Rebates receivable	(4,688)	(2,734)
Inventories	(32,498)	19,343
Prepaid expenses and other current assets	(16,732)	(12,717)
Other assets	(5,201)	(2,190)
Accounts payable	20,289	14,719
Accrued and other liabilities	(7,512)	30,525
Customer deposits	(1,661)	(91)
Deferred revenue	103,149	79,551
Net cash (used in) provided by operating activities	(59,794)	67,134
Investing activities:		
Payments for the cost of solar energy systems, leased and to be leased	(450,296)	(280,451)
Purchase of property and equipment	(7,610)	(3,893)
Investment in promissory notes receivable and other advances	(11,000)	
Payments to acquire redeemable noncontrolling interest in a subsidiary	(450)	
Net cash used in investing activities	(469,356)	(284,344)
Financing activities:		
<i>Investment fund financings, bank and other borrowings:</i>		
Borrowings under long-term debt	198,935	34,464
Repayments of long-term debt	(52,289)	(18,616)
Proceeds from issuance of solar asset-backed notes	67,435	

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Repayments of borrowings under solar asset-backed notes	(2,187)	
Payment of deferred purchase consideration	(957)	
Repayments of sale-leaseback financing obligation	(206)	(191)
Proceeds from lease pass-through financing obligation	19,001	20,592
Repayments of lease pass-through financing obligation	(6,351)	
Repayment of capital lease obligations	(382)	(1,212)
Proceeds from investment by noncontrolling interests and redeemable noncontrolling interests in subsidiaries	216,096	146,071
Distributions paid to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(90,533)	(76,236)
Proceeds from U.S. Treasury grants	360	98,484
Net cash provided by financing activities before equity issuances	348,922	203,356
<i>Equity issuances:</i>		
Proceeds from exercise of stock options	8,409	5,346
Proceeds from exercise of common stock warrants		8,034
Net cash provided by equity issuances	8,409	13,380
Net cash provided by financing activities	357,331	216,736
Net decrease in cash and cash equivalents	(171,819)	(474)
Cash and cash equivalents, beginning of period	577,080	160,080
Cash and cash equivalents, end of period	\$ 405,261	\$ 159,606
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 9,589	\$ 3,189
Cash payments during the period for taxes, net of refunds	\$ 1,881	\$

See accompanying notes.

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SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization

SolarCity Corporation, or the Company, was incorporated as a Delaware corporation on June 21, 2006. The Company is engaged in the design, installation and sale or lease of solar energy systems to residential and commercial customers, or sale of electricity generated by solar energy systems to customers. The Company's headquarters are located in San Mateo, California.

2. Summary of Significant Accounting Policies and Procedures

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and include all adjustments (consisting of normal and recurring adjustments) that management considers necessary for a fair presentation of the results of operations for the interim periods covered and the consolidated financial position at the balance sheet dates. This quarterly report on Form 10-Q should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 18, 2014. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full year ending December 31, 2014, or any other future period.

The condensed consolidated financial statements reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. In accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 810, *Consolidation*, the Company consolidates any variable interest entity, or VIE, of which it is the primary beneficiary. The typical condition for a controlling financial interest is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate the VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company does not consolidate a VIE in which it has a majority ownership interest when the Company is not considered the primary beneficiary. The Company has determined that it is the primary beneficiary of a number of VIEs (see Note 9, *VIE Arrangements*). The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Prior period research and development expenses were reclassified from general and administrative expense and disclosed separately as research and development expense in the condensed consolidated statements of operations and the accompanying notes in order to enhance their comparability to current period research and development expenses. The reclassification did not impact prior period results of operations, cash flows, total assets, total liabilities or total equity.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. Management regularly makes significant estimates and assumptions regarding the selling price of undelivered elements for revenue recognition purposes, the collectability of accounts and rebates receivable, the valuation of inventories, the total costs for long-term contracts used as a basis for determining the percentage of completion for such contracts, the fair values and residual values of solar energy systems subject to leases, the accounting for business combinations, the fair values and useful lives of acquired intangible assets, the useful lives of solar energy systems, property and equipment, the determination of accrued warranty, the determination of lease pass-through financing obligations, the discount rates used to determine the fair values of investment tax credits, the valuation of stock-based compensation, the determination of valuation allowances associated with deferred tax assets, asset impairment and other items. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

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ASC 820 requires that the valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes inputs that may be used to measure fair value as follows:

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of June 30, 2014 and December 31, 2013, there were no fair value measurements of assets and liabilities subsequent to initial recognition.

The Company's financial instruments include accounts receivable, rebates receivable, accounts payable, customer deposits, distributions payable to noncontrolling interests and redeemable noncontrolling interests, participation interest, solar asset-backed notes, convertible senior notes and long-term debt. The carrying values of its financial instruments other than the participation interest, solar asset-backed notes, convertible senior notes and long-term debt approximate their fair values due to the fact that they were short-term in nature at June 30, 2014 and December 31, 2013 (Level 1). The fair value of convertible senior notes was \$321.7 million and \$273.0 million as of June 30, 2014 and December 31, 2013, respectively, based on their last actively traded price (Level 1). The Company estimates the fair value of solar asset-backed notes and long-term debt based on rates currently offered for debt with similar maturities and terms (Level 3). The Company has estimated the fair value of long-term debt to approximate its carrying value. The Company has estimated the fair value of solar asset-backed notes to be \$125.8 million and \$52.9 million as of June 30, 2014 and December 31, 2013, respectively. The Company has estimated the fair value of the participation interest to be \$14.1 million and \$15.1 million as of June 30, 2014 and December 31, 2013, respectively, based on rates currently offered for instruments with similar maturities and terms (Level 3).

Warranties

The Company warrants its products for various periods against defects in material or installation workmanship. The Company generally provides a warranty on the generating and non-generating parts of the solar energy systems it sells of typically between five to twenty years. The manufacturer's warranty on the solar energy systems' components, which is typically passed through to customers, ranges from one to 25 years. The changes in the accrued warranty balance, recorded as a component of accrued and other current liabilities on the condensed consolidated balance sheets, consisted of the following (in thousands):

	As of and for the Six Months Ended June 30, 2014
Balance beginning of the period	\$ 7,502

Change in estimate credited to warranty expense	(508)
Current year provision charged to warranty expense	1,279
Less warranty claims	(285)
Balance end of the period	\$ 7,988

Solar Energy Systems Performance Guarantees

The Company guarantees a specified minimum solar energy production output for certain systems leased or sold to customers generally for a term of 20 years. The Company monitors the solar energy systems to ensure that these outputs are being achieved. The Company evaluates if any amounts are due to its customers. As of June 30, 2014 and December 31, 2013, the Company had recorded liabilities of \$1.0 million as accrued and other current liabilities in the condensed consolidated balance sheets, relating to these guarantees based on the Company's assessment of its current exposure.

Comprehensive Income (Loss)

The Company accounts for comprehensive income (loss) in accordance with ASC 220, *Comprehensive Income*. Under ASC 220, the Company is required to report comprehensive income (loss), which includes net income (loss) as well as other comprehensive income (loss). There were no other comprehensive income (losses) and no differences between comprehensive loss as defined by ASC 220 and net loss as reported in the condensed consolidated statements of operations for the periods presented.

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Operating segments are defined as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the executive team, which is comprised of the chief executive officer, the chief technology officer, the chief revenue officer, the chief operating officer and the chief financial officer. Based on the financial information presented to and reviewed by the chief operating decision maker in deciding how to allocate the resources and in assessing the performance of the Company, the Company has determined that it has a single operating and reporting segment: solar energy products and services. The Company's principal operations, revenue and decision-making functions are located in the United States.

Basic and Diluted Net Income (Loss) Per Share

The Company's basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

The diluted net income (loss) per share attributable to common stockholders is computed by giving effect to all potential common stock equivalents outstanding for the period determined using the treasury stock method or the if-converted method, as applicable. In periods when the Company incurred a net loss attributable to common stockholders, stock options, restricted stock units, warrants to purchase common stock and convertible senior notes were considered to be common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to replace the existing revenue recognition criteria for contracts with customers and to establish the disclosure requirements for revenue from contracts with customers. The ASU is effective for interim and annual periods beginning after December 15, 2016. Adoption of the ASU is either retrospective to each prior period presented or retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently assessing the impact of the ASU on its consolidated financial statements.

3. Goodwill and Intangible Assets

As disclosed in the Company's Form 10-K for the year ended December 31, 2013, the Company is continuing the process of reviewing the third-party valuations of certain assets and liabilities acquired through the Paramount Energy Solutions, LLC, or Paramount Energy, and Zep Solar, Inc., or Zep Solar, acquisitions in the third and fourth quarter of 2013, respectively, including the gross amounts of the intangible assets presented in the table below. There were no material changes recorded in the six months ended June 30, 2014 related to the amounts reported in the Form 10-K, except for the periodic amortization of the intangible assets and transfers of customer orders backlog to solar energy systems, leased and to be leased. However, the preliminary fair values of these intangible assets and goodwill remain subject to change.

Intangible Assets

The following is a summary of intangible assets as of June 30, 2014 (in thousands):

			Transfer to solar energy systems		
	Gross	Accumulated Amortization	leased and to be leased	Write offs and cancellations	Net
Developed technology	\$ 60,100	\$ (4,777)	\$	\$	\$ 55,323
Trademarks and trade names	24,700	(1,963)			22,737
Marketing database	17,427	(2,856)			14,571
PowerSaver agreement	17,077	(1,399)			15,678
Solar energy systems backlog	12,434		(10,740)	(1,642)	52
Non-compete agreement	6,959	(1,141)			5,818
Mortgage database	4,628	(1,264)			3,364
Customer orders backlog	700	(700)			
Internally developed software	500	(93)			407
Funding commitment	200	(33)			167
Total	\$ 144,725	\$ (14,226)	\$ (10,740)	\$ (1,642)	\$ 118,117

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Developed Technology

Developed technology is solar panel interlocking technology that includes a rail-free installation system, auto-grounding connections and a rapid, drop-in module installation design. These features allow solar energy systems to be installed easily and produce significant performance-based and aesthetic improvements compared to other solar energy system installation technologies.

Trademarks and Trade Names

Trademarks and trade names are related to established market recognition and customer base from acquired businesses.

Marketing Database

The marketing database is a comprehensive platform for targeted marketing, including a prospective customer scoring engine, a marketing campaign manager and monthly updates. The prospective customer scoring engine improves the results of marketing initiatives by predicting which customer leads in the marketing database will respond favorably to a particular marketing campaign. The marketing campaign manager monitors the results of marketing campaigns and provides feedback for optimizing future marketing campaigns.

PowerSaver Agreement

Under the PowerSaver program, Fannie Mae makes available additional loans of up to \$25,000 to eligible Fannie Mae borrowers. The additional loan amounts can only be used for energy efficiency projects that include the installation of solar energy systems. The PowerSaver program provides an additional source of financing for customers and therefore helps broaden the Company's customer base. Under the PowerSaver agreement, the Company is provided with the exclusive right to market solar energy systems to the customers of Paramount Mortgage, an affiliate of Paramount Energy.

Solar Energy Systems Backlog

Solar energy systems backlog represents the value attributable to the contractual arrangements entered into between Paramount Energy and its customers to install solar energy systems for which the installation had not commenced as of the acquisition date. The arrangements were acquired by the Company. This balance is transferred to solar energy systems, leased and to be leased, as the solar energy systems are installed and placed in service and subsequently depreciated as operating leases and solar energy systems incentives cost of revenues over the estimated useful lives of the solar energy systems of 30 years.

Non-Compete Agreement

Certain former key employees of businesses acquired by the Company became employees of the Company and executed non-compete agreements with the Company.

Mortgage Database

The mortgage database contains data pertaining to households that the Company can directly market to.

Internally Developed Software

Internally developed software consists of an online application for projecting the size, scope, layout, materials and costs of potential solar energy system installations, which assists with optimizing solar energy system installations.

All intangible assets, with the exception of the solar energy systems backlog, are amortized over their estimated useful lives. The amortization expense for intangible assets was \$10.8 million and \$0 million for the six months ended June 30, 2014 and 2013, respectively. Of the total amortization expense for the six months ended June 30, 2014, \$2.9 million is included in operating leases and solar energy systems incentives cost of revenue, \$2.1 million is included in solar energy systems and components sales cost of revenue and \$5.8 million is included in sales and marketing expense in the condensed consolidated statements of operations. No intangible assets were impaired during the six months ended June 30, 2014. However, in the six months ended June 30, 2014, the

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Company wrote-off \$0.2 million of the solar energy systems backlog related to contracts cancelled after acquisition, which was recorded as a component of sales and marketing expense in the condensed consolidated statements of operations. Total future amortization expense for intangible assets is as follows (in thousands):

Six months ending December 31, 2014	\$ 10,224
2015	20,449
2016	19,946
2017	18,739
2018	17,168
2019	13,822
Thereafter	17,717
Total	\$ 118,065

Goodwill

There were no changes to the carrying value of goodwill of \$148.9 million in the six months ended June 30, 2014.

4. Selected Balance Sheet Components

Selected components of the condensed consolidated balance sheets were as follows (in thousands):

	June 30, 2014	December 31, 2013
Inventories:		
Raw materials	\$ 140,399	\$ 105,919
Work in progress	3,518	5,475
Total	\$ 143,917	\$ 111,394
Solar Energy Systems, Leased and To Be Leased Net:		
Solar energy systems leased to customers(1)	\$ 1,884,743	\$ 1,513,731
Initial direct costs related to solar energy systems leased to customers	133,903	94,321
	2,018,646	1,608,052
Less accumulated depreciation and amortization	(118,537)	(86,457)
	1,900,109	1,521,595
Solar energy systems under construction	84,610	53,010
Solar energy systems to be leased to customers	124,624	107,916
Solar energy systems, leased and to be leased net	\$ 2,109,343	\$ 1,682,521

Other Liabilities and Deferred Credits:

Deferred gain on sale-leaseback transactions, net of current portion	\$ 56,411	\$ 58,033
Deferred rent expense	2,878	3,333
Capital lease obligation	26,323	27,126
Liability for receipts from investors	42,665	72,520
Participation interest	14,205	14,114
Other noncurrent liabilities	31,086	18,313
Total	\$ 173,568	\$ 193,439

- (1) Included in solar energy systems leased to customers as of June 30, 2014 and December 31, 2013 was \$66.4 million related to capital leased assets with an accumulated depreciation of \$6.6 million and \$5.3 million, respectively.

5. Long-Term Debt*Working Capital Financing*

On May 26, 2010, a subsidiary of the Company entered into a financing agreement with a bank to obtain funding for working capital. The amount available to be borrowed under the financing agreement was determined based on the present value of expected future lease receipts from solar energy systems owned by the subsidiary and leased to customers, up to a maximum of \$16.3 million. The working capital financing was funded in four tranches and was available for draw-down through March 31, 2011. Each tranche bears interest at an annual rate of 2.00% plus the swap rate applicable to the average life of the scheduled lease receipts for the tranche. The working capital financing is secured by substantially all of the subsidiary's assets and is nonrecourse to the Company's other assets. The working capital financing matures on December 31, 2024.

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Through June 30, 2014, the Company had borrowed an aggregate of \$13.3 million, net of fees, under the working capital financing. Of the amount borrowed, \$9.4 million, net of fees, and \$10.0 million, net of fees, was outstanding as of June 30, 2014 and December 31, 2013, respectively, of which \$8.3 million and \$8.8 million, respectively, are included in the condensed consolidated balance sheets under long-term debt, net of current portion. For the total amount outstanding as of June 30, 2014, the interest rates ranged between 5.48% and 5.65%. The Company was in compliance with all debt covenants as of June 30, 2014.

On July 2, 2014, the Company fully repaid the outstanding balance of the working capital financing.

Vehicle Loans

The Company has entered into various vehicle loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed and mature between March 2015 and December 2018. Total vehicle loans outstanding as of June 30, 2014 and December 31, 2013 was \$11.3 million and \$6.5 million, respectively, of which \$8.4 million and \$4.7 million, respectively, are included in the condensed consolidated balance sheets under long-term debt, net of current portion. For the total amount outstanding as of June 30, 2014, the interest rates ranged between 0.00% and 7.49%.

Term Loans

On June 7, 2013, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan of \$100.0 million. On January 6, 2014, the agreement was amended to increase the maximum term loan availability to \$158.0 million. Each tranche of the term loan bears interest at an annual rate of LIBOR plus 3.25%. As of June 30, 2014, the interest rates ranged between 3.40% and 3.60%. The term loan is secured by the assets and cash flows of the subsidiary and is non-recourse to the Company's other assets. The term loan matures on June 7, 2015. Through June 30, 2014, the Company had borrowed an aggregate of \$135.9 million under the term loan. Of the amount borrowed, \$132.1 million, net of fees, and \$85.5 million, net of fees, were outstanding as of June 30, 2014 and December 31, 2013, respectively, of which \$0.0 million, net of fees, and \$81.3 million, net of fees, respectively, are included in the condensed consolidated balance sheets under long-term debt, net of current portion. The Company was in compliance with all debt covenants as of June 30, 2014.

On February 4, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan of \$100.0 million. On February 20, 2014, the agreement was amended to increase the maximum term loan availability to \$220.0 million. On March 20, 2014, the agreement was further amended to increase the maximum term loan availability to \$250.0 million. The term loan bears interest at an annual rate of LIBOR plus 3.25% or, at the Company's option, 3.25% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published prime rate or (iii) LIBOR plus 1.00%. As of June 30, 2014, the interest rates ranged between 3.40% and 3.48%. The term loan is secured by the assets and cash flows of the subsidiary and is non-recourse to the Company's other assets. The term loan matures on December 31, 2016. Through June 30, 2014, the Company had borrowed an aggregate of \$45.6 million under the term loan. Of the amount borrowed, \$44.5 million, net of fees, was outstanding as of June 30, 2014, which is included in the condensed consolidated balance sheets under long-term debt, net of current portion. The Company was in compliance with all debt covenants as of June 30, 2014.

On May 23, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan of \$125.0 million. The term loan bears interest at an annual rate of 3.00% to 4.00%, depending on the cumulative period the term loan has been outstanding, plus LIBOR or, at the Company's option, plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published prime rate or (iii) LIBOR plus 1.00%. As of June 30, 2014, the interest rate was 3.15%. The term loan is secured by certain assets and cash flows of the subsidiary and is

non-recourse to the Company's other assets or cash flows. The term loan matures on May 23, 2016. Through June 30, 2014, the Company had borrowed an aggregate of \$8.5 million under the term loan. Of the amount borrowed, \$8.2 million, net of fees, was outstanding as of June 30, 2014, which is included in the condensed consolidated balance sheets under long-term debt, net of current portion. The Company was in compliance with all debt covenants as of June 30, 2014.

6. Borrowings under Bank Lines of Credit

Credit Facility for SolarStrong

On November 21, 2011, a subsidiary of the Company entered into an agreement with a bank for a credit facility of up to \$350 million. The credit facility is used to partially fund the Company's SolarStrong initiative, which is a five-year plan to build solar energy systems for privatized U.S. military housing communities across the country. The credit facility is drawn-down in tranches, with the interest rates determined when amounts are drawn-down. As of June 30, 2014, the interest rates ranged between 6.78% and 7.27%. The credit facility is secured by the assets of the SolarStrong initiative and is non-recourse to the Company's other assets. The credit facility matures in 2032. As of June 30, 2014 and December 31, 2013, \$5.3 million, net of fees, and \$5.4 million, net of fees, respectively, were outstanding under the credit facility, of which \$5.2 million, net of fees, and \$5.3 million, net of fees, respectively, are included in the condensed consolidated balance sheets under long-term debt, net of current portion. The Company was in compliance with all debt covenants as of June 30, 2014.

Table of Contents*Revolving Credit Facility*

In September 2012, the Company entered into a revolving credit agreement with a syndicate of banks to obtain funding for working capital, letters of credit and funding for general corporate needs. The committed amount under the revolving credit facility was increased from \$75.0 million to \$160.5 million on November 1, 2013 and then from \$160.5 million to \$200.0 million on December 13, 2013. Borrowed funds bear interest at an annual rate of 3.25% plus LIBOR or, at the Company's option, 2.25% plus the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's published prime rate or (iii) LIBOR plus 1.00%. As of June 30, 2014, the interest rates ranged between 3.40% and 5.50%. The fee for letters of credit is 3.875% per annum, and the fee for undrawn commitments is 0.375% per annum. The revolving credit facility is secured by certain of the Company's machinery and equipment, accounts receivable, inventory and other assets. The revolving credit facility matures on December 31, 2016. As of June 30, 2014 and December 31, 2013, \$190.1 million, net of fees, and \$138.5 million, net of fees, respectively, were outstanding under the revolving credit facility, all of which are included in the condensed consolidated balance sheets under long-term debt, net of current portion. In June and July 2014, the revolving credit facility was amended to increase certain thresholds, including those relating to permitted investment amounts by the Company, and to make certain changes in connection with the Company's proposed acquisition of Silevo, Inc. and issuance of certain loans and solar-energy backed debt securities by the Company, among other things. The Company was in compliance with all debt covenants as of June 30, 2014.

7. Convertible Senior Notes

In October 2013, the Company issued \$230.0 million in aggregate principal of 2.75% convertible senior notes due on November 1, 2018 through a public offering. The net proceeds from the offering, after deducting transaction costs, were \$222.5 million. The Company incurred \$7.5 million of debt issuance costs in connection with the issuance of the convertible senior notes, which was recorded in other assets and is being amortized to interest expense over the contractual term of the convertible senior notes. The convertible senior notes bear interest at a fixed rate of 2.75% per annum.

Each \$1,000 of principal of the convertible senior notes is initially convertible into 16.2165 shares of the Company's common stock, which is equivalent to an initial conversion price of \$61.67 per share, subject to adjustment upon the occurrence of specified events. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time prior to maturity. If certain corporate events occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such a corporate event in certain circumstances. The maximum conversion rate is capped at 21.4868 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$46.54 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined events of default.

8. Solar Asset-backed Notes

In November 2013, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a special purpose entity, or SPE, and issued \$54.4 million in aggregate principal of Solar Asset-backed Notes, Series 2013-1, backed by these solar assets to certain investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. The Solar Asset-backed Notes were issued at a discount of 0.05%. The Solar Asset-backed Notes bear interest at a fixed rate of 4.80% per annum and have a final maturity date of November 20, 2038. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly

owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance services for the qualifying solar energy systems.

In April 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to certain investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. The Solar Asset-backed Notes were issued at a discount of 0.01%. The Solar Asset-backed Notes bear interest at a fixed rate of 4.59% per annum and have a final maturity date of April 20, 2044. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance services for the qualifying solar energy systems.

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In connection with the transfer of the assets into the SPE in April 2014, the Company terminated a lease pass-through arrangement with an entity that is a partnership between the Company and an investor. The partnership is a VIE that is consolidated by the Company as the primary beneficiary. To settle the associated lease pass-through financing obligation, the partnership distributed \$74.5 million to the investor, including amounts previously accrued for distribution, and amended the expected future distributions to the investor. Additionally, the contractual documents of the partnership were amended to grant the investor the right to put its interest in the partnership back to the partnership. Accordingly, the carrying value of the investor's interest in the partnership was reclassified from noncontrolling interests in subsidiaries to redeemable noncontrolling interests in subsidiaries in the condensed consolidated balance sheet.

As of June 30, 2014 and December 31, 2013, \$120.9 million and \$52.9 million, respectively, of all Solar Asset-backed Notes were outstanding, of which \$115.0 million and \$49.8 million, respectively, are included in the condensed consolidated balance sheets as non-current. The Company was in compliance with all Solar Asset-backed Note covenants as of June 30, 2014.

9. VIE Arrangements

Wholly owned subsidiaries of the Company and investors have formed and contributed cash or assets to various solar financing funds and entered into the related agreements. Additionally, the Company acquired the assets of a fund through a business combination in September 2013 and assumed the related contractual arrangements. As of June 30, 2014, the investors had contributed an aggregate of \$1,121.1 million into the funds.

The Company has determined that the funds are VIEs and it is the primary beneficiary of these VIEs by reference to the power and benefits criterion under ASC 810, *Consolidation*. The Company has considered the provisions within the contractual arrangements, which grant it power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems and the associated customer contracts to be sold or contributed to these VIEs and the redeployment of solar energy systems. The Company considers the rights granted to the investors under the contractual arrangements to be more protective rather than participating.

As the primary beneficiary of these VIEs, the Company consolidates in its financial statements the financial position, results of operations and cash flows of these VIEs, and all intercompany balances and transactions between the Company and these VIEs are eliminated in the consolidated financial statements.

Cash distributions of income and other receipts by a fund, net of agreed-upon expenses, estimated expenses, tax benefits and detriments of income and loss and tax credits, are allocated to the investor and the Company's subsidiary as specified in the contractual arrangements. Generally, the Company's subsidiary has the option to acquire the investor's interest in the fund for an amount based on the market value of the fund or the formula specified in the contractual arrangements.

On March 31, 2014, the Company acquired an investor's interest in one fund for a total consideration of \$0.5 million.

As of June 30, 2014, the Company was contractually required to make payments to an investor in one of the funds to ensure that the investor is projected to achieve a specified minimum return annually. The amounts of any potential future payments under this guarantee are dependent on the amounts and timing of future distributions to the investor from the fund, the tax benefits that accrue to the investor from the fund's activities and the amount and timing of the Company's purchase of the investor's interest in the fund or the amount and timing of the distributions to the investor upon the liquidation of the fund. Due to the uncertainties associated with estimating the amount and timing of distributions to the investor and the possibility and timing of the liquidation of the fund, the Company is unable to

determine the potential maximum future payments that it would have to make under this guarantee.

Upon the sale or liquidation of a fund, distributions would occur in the order and priority specified in the contractual arrangements.

Pursuant to management services, maintenance and warranty arrangements, the Company has been contracted to provide services to the funds, such as warranty support, accounting, lease servicing and performance reporting. In some instances, the Company has guaranteed the payments to the investors as specified in the contractual arrangements. A fund's creditors have no recourse to the general credit of the Company or to that of the other funds. As of June 30, 2014, the assets of one of the funds with a carrying value of \$28.2 million have been pledged as collateral for the fund's borrowings under the SolarStrong credit facility. None of the assets of the other funds have been pledged as collateral for their obligations.

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The Company presents the solar energy systems in these VIEs under solar energy systems, leased and to be leased net, in the condensed consolidated balance sheets. The aggregate carrying values of these VIEs assets and liabilities, after elimination of intercompany transactions and balances, in the condensed consolidated balance sheets were as follows (in thousands):

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,421	\$ 35,141
Restricted cash	459	115
Accounts receivable net	6,677	4,802
Rebates receivable	22,277	17,351
Prepaid expenses and other current assets	7,855	3,831
Total current assets	85,689	61,240
Solar energy systems, leased and to be leased net	1,010,998	759,148
Other assets	2,512	2,777
Total assets	\$ 1,099,199	\$ 823,165
Liabilities		
Current liabilities:		
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	\$ 11,788	\$ 20,390
Current portion of deferred U.S. Treasury grants income	6,502	6,668
Accrued and other current liabilities	426	615
Customer deposits	3,946	5,291
Current portion of deferred revenue	14,912	13,754
Current portion of bank borrowings	260	251
Total current liabilities	37,834	46,969
Deferred revenue, net of current portion	230,559	206,324
Bank borrowings, net of current portion	5,340	5,482
Deferred U.S. Treasury grants income, net of current portion	173,803	180,566
Other liabilities and deferred credits	10,707	1,893
Total liabilities	\$ 458,243	\$ 441,234

10. Redeemable Noncontrolling Interests in Subsidiaries

Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified as redeemable noncontrolling interests in subsidiaries between liabilities and stockholders equity in the condensed consolidated balance sheets. The redeemable noncontrolling interests in subsidiaries balance is determined

using the hypothetical liquidation at book value method but cannot be less than their estimated redemption value. The changes in redeemable noncontrolling interests in subsidiaries were as follows (in thousands):

Balance, December 31, 2013	\$ 44,709
Contributions from redeemable noncontrolling interests	107,699
Net loss	(45,288)
Distributions to redeemable noncontrolling interests	(5,992)
Transfers from noncontrolling interests in subsidiaries	25,248
Acquisition of redeemable noncontrolling interests	(2,450)
Balance, June 30, 2014	\$ 123,926

11. Equity

The changes in total stockholders' equity and noncontrolling interests in subsidiaries were as follows (in thousands):

	Total Stockholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2013	\$ 617,598	\$ 186,817	\$ 804,415
Contributions from noncontrolling interests		108,397	108,397
Stock-based compensation expense	39,399		39,399
Issuance of common stock upon exercise of stock options for cash	8,409		8,409
Acquisition of noncontrolling interests	2,000		2,000
Net loss	(71,715)	(46,675)	(118,390)
Transfers to redeemable noncontrolling interests		(25,248)	(25,248)
Distributions to noncontrolling interests		(75,939)	(75,939)
Balance, June 30, 2014	\$ 595,691	\$ 147,352	\$ 743,043

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Under the Company's 2012 Equity Incentive Plan, the Company may grant incentive stock options and nonstatutory stock options to employees, directors and consultants. Stock options may be granted at an exercise price per share not less than 100% of the fair market value per share on the grant date. If an incentive stock option is granted to a 10% or greater stockholder, then the exercise price per share shall not be less than 110% of the fair market value per share on the grant date. Stock options are exercisable over a maximum term of 10 years from the date of grant and generally vest over four years.

In September 2012, the Company adopted a director compensation plan for non-employee directors. Under the plan, each person who joins the board of directors as a non-employee director following the adoption of the plan receives an initial grant of 30,000 stock options and triennial grants of 15,000 stock options, as well as an annual cash retainer of \$15,000, all of which are subject to continued service on the board of directors. Such non-employee directors who serve on committees of the board of directors receive various other specified additional equity awards and cash retainers.

A summary of stock option activity is as follows (in thousands, except per share amounts):

		Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding	December 31, 2013	13,949	\$ 14.77	7.52	\$ 586,740
Granted (weighted-average fair value of \$49.71)		3,696	68.48		
Exercised		(1,508)	5.58		
Canceled		(1,134)	32.77		
Outstanding	June 30, 2014	15,003	\$ 27.56	7.68	\$ 653,294
Vested and exercisable	June 30, 2014	6,511	\$ 6.73	6.27	\$ 415,986
Vested and expected to vest	June 30, 2014	13,022	\$ 24.25	7.47	\$ 609,040

The aggregate intrinsic value of stock options exercised was \$27.7 million and \$47.1 million during the three months ended June 30, 2014 and 2013, respectively, and \$87.5 million and \$52.0 million during the six months ended June 30, 2014 and 2013, respectively. The grant date fair value of stock options that vested was \$9.8 million and \$9.7 million during the three months ended June 30, 2014 and 2013, respectively, and \$19.2 million and \$10.5 million during the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and December 31, 2013, there was \$240.3 million and \$103.0 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to nonvested stock options, which are expected to be recognized over the weighted-average period of 2.83 years and 2.74 years, respectively.

Under ASC 718, *Stock Compensation*, the Company estimates the fair value of stock options on their grant dates using the Black-Scholes option valuation model and applies the straight-line method of expense attribution. The fair values were estimated with the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Dividend yield	0%	0%	0%	0%
Annual risk-free rate of return	1.97%	1.23%	1.97%	1.17%
Expected volatility	84.0%	99.1%	84.6%	98.3%
Expected term (years)	6.06	6.44	6.07	6.42

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The expected volatility was based on the average historical volatilities of publicly traded peer companies determined by the Company. The annual risk-free rate of return was based on the U.S. Treasury yield curves in effect on the grant dates for the expected terms of the stock options to be valued. The dividend yield was zero, as the Company does not anticipate paying a dividend within the relevant time frame. The expected term was estimated using the simplified method allowed under ASC 718.

Restricted Stock Units

The Company began granting restricted stock units, or RSUs, to employees, directors and consultants in 2012 under the Company's 2012 Equity Incentive Plan. A summary of RSU activity is as follows (in thousands, except per share amounts):

		Restricted Stock Units	Weighted- Average Fair Value
Outstanding	December 31, 2013	20	\$ 25.46
Granted		138	67.50
Released		(6)	67.44
Outstanding	June 30, 2014	152	\$ 70.60
Expected to vest	June 30, 2014	123	\$ 70.60

The grant date fair value of RSUs released was \$0.1 million and \$0.0 million during the three months ended June 30, 2014 and 2013, respectively, and \$0.2 million and \$0.0 million during the six months ended June 30, 2014 and 2013, respectively. Under ASC 718, the Company determines the fair value of RSUs on their grant dates based on the fair value of the Company's common stock on the grant dates and applies the straight-line method of expense attribution. Stock-based compensation expense from RSUs was \$1.8 million and \$0.0 million for the three months ended June 30, 2014 and 2013, respectively, and \$3.5 million and \$0.0 million for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and December 31, 2013, there was \$6.5 million and \$0.5 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, from RSUs, which are expected to be recognized over the weighted-average period of 1.98 years and 1.99 years, respectively.

Stock-Based Compensation Expense

As part of the requirements of ASC 718, the Company is required to estimate potential forfeitures of equity awards and adjust stock-based compensation expense accordingly. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from the estimate. Changes in estimated forfeitures are recognized in the period of change and also impact the amount of stock-based compensation expenses to be recognized in future periods.

The amount of stock-based compensation expense recognized was \$21.3 million and \$6.3 million for the three months ended June 30, 2014 and 2013, respectively, and \$39.4 million and \$10.1 million for the six months ended June 30, 2014 and 2013, respectively. The Company capitalized costs of \$5.4 million and \$1.4 million during the three months ended June 30, 2014 and 2013, respectively, and \$10.5 million and \$2.6 million during the six months ended June 30,

2014 and 2013, respectively, as a component of work-in-progress within inventory, software within property and equipment or solar energy systems, leased and to be leased.

Stock-based compensation expense is included in cost of revenue and operating expenses as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Cost of revenue	\$ 511	\$ 137	\$ 1,444	\$ 431
Sales and marketing	3,920	716	6,961	1,303
General and administrative	10,719	4,028	19,195	5,746
Research and development	785	32	1,291	69

13. Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based upon the difference between the condensed consolidated financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rate expected to apply to taxable income in the years in which the differences are expected to be reversed.

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The income tax expense for the three months ended June 30, 2014 and 2013 was determined based on the Company's estimated consolidated effective income tax rates of negative 0.17% and 0.08%, respectively. The income tax expense for the six months ended June 30, 2014 and 2013 were determined based on the Company's estimated consolidated effective income tax rates of 0.12% and negative 0.13%, respectively. The differences between the estimated consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to a valuation allowance and the current amortization of the prepaid income taxes due to inter-company sales held within the consolidated group.

As part of the asset monetization strategy, the Company has agreements to sell solar energy systems to the solar financing fund joint ventures. The gain on the sale of the assets has been eliminated in the condensed consolidated financial statements. These transactions are treated as inter-company sales and as such, tax is not recognized on the sale until the Company no longer benefits from the underlying asset. Since the systems remain within the consolidated group, the tax expense incurred related to these sales is being deferred and amortized over the estimated useful life of the underlying systems which has been estimated to be 30 years. The deferral of the tax expense results in recording of a prepaid tax expense that is included in the condensed consolidated balance sheets as other assets. As of June 30, 2014 and December 31, 2013, the Company recorded a long-term prepaid tax expense, net of amortization of \$3.8 million and \$3.7 million, respectively. The amortization of the prepaid tax expense in each period makes up the major component of the tax expense.

Uncertain Tax Positions

The Company is subject to taxation and files income tax returns in the U.S., various state, local, and foreign jurisdictions. Due to the Company's net losses, substantially all of its federal, state, local, and foreign income tax returns since inception are still subject to audit.

14. Related Party Transactions

The condensed consolidated financial statements include the following related party transactions and balances (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Revenue:				
Solar energy systems sales to related parties	\$ 2,479	\$	\$ 2,479	\$ 17
Expenditures:				
Purchases of inventories from related parties	\$ 1,010	\$	\$ 1,970	\$
Referral fees paid or payable to a related party (included in sales and marketing expense)	\$ 28	\$	\$ 92	\$

Related party balances

	June 30, 2014	December 31, 2013
	\$ 1,772	\$ 9

Due from related parties (included in accounts receivable)			
Due to related parties (included in accounts payable)	\$	235	\$ 427
Due to related parties (included in customer deposits)	\$	83	\$ 83
Deferred revenue from related parties (included in current portion of deferred revenue)	\$	25	\$ 831

15. Commitments and Contingencies

Noncancelable Operating Leases

The Company leases office and warehouse facilities under noncancelable operating leases primarily for its United States-based warehouse locations. In addition, the Company leases equipment under noncancelable operating leases.

Indemnification and Guaranteed Returns

As disclosed above, the Company is contractually committed to compensate certain fund investors for any losses that they may suffer in certain limited circumstances resulting from reductions in U.S. Treasury grants or ITCs. Generally, such obligations would arise as a result of reductions to the value of the underlying solar energy systems as assessed by the U.S. Treasury Department for purposes of claiming U.S. Treasury grants or as assessed by the IRS for purposes of claiming ITCs or U.S. Treasury grants. For each balance sheet date, the Company assesses and recognizes, when applicable, the potential exposure from this obligation based on

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all the information available at that time, including any guidelines issued by the U.S. Treasury Department on solar energy system valuations for purposes of claiming U.S. Treasury grants and any audits undertaken by the IRS. The Company believes that any payments to the fund investors in excess of the amount already recognized by the Company for this obligation are not probable based on the facts known at the reporting date.

The maximum potential future payments that the Company could have to make under this obligation would depend on the difference between the fair values of the solar energy systems sold or transferred to the funds as determined by the Company and the values that the U.S. Treasury Department would determine as fair value for the systems for purposes of claiming U.S. Treasury grants or the values the IRS would determine as the fair value for the systems for purposes of claiming ITCs or U.S. Treasury grants. The Company claims U.S. Treasury grants based on guidelines provided by the U.S. Treasury department and the statutory regulations from the IRS. The Company uses fair values determined with the assistance of independent third-party appraisals commissioned by the Company as the basis for determining the ITCs that are passed-through to and claimed by the fund investors. Since the Company cannot determine future revisions to U.S. Treasury Department guidelines governing system values or how the IRS will evaluate system values used in claiming ITCs or U.S. Treasury grants, the Company is unable to reliably estimate the maximum potential future payments that it could have to make under this obligation as of each balance sheet date.

The Company is eligible to receive certain state and local incentives that are associated with renewable energy generation. The amount of incentives that can be claimed is based on the projected or actual solar energy system size and/or the amount of solar energy produced. The Company also currently participates in one state's incentive program that is based on either the fair market value or the tax basis of solar energy systems placed in service. State and local incentives received are allocated between the Company and fund investors in accordance with the contractual provisions of each fund. The Company is not contractually obligated to indemnify any fund investor for any losses they may incur due to a shortfall in the amount of state or local incentives actually received.

As disclosed above, the Company is contractually required to make payments to one fund investor to ensure that the fund investor achieves a specified minimum internal rate of return. The fund investor has already received a significant portion of the projected economic benefits from U.S. Treasury grant distributions and tax depreciation benefits. The contractual provisions of the fund state that the fund has an indefinite term unless the members agree to dissolve the fund. Based on the Company's current financial projections regarding the amount and timing of future distributions to the fund investor, the Company does not expect to make any payments as a result of this guarantee and has not accrued any liabilities for this guarantee. The amount of potential future payments under this guarantee is dependent on the amount and timing of future distributions to the fund investor and future tax benefits that accrue to the fund investor. Due to the uncertainties surrounding estimating the amounts of these factors, the Company is unable to estimate the maximum potential payments under this guarantee. As of June 30, 2014, the fund investor had achieved the specified minimum internal rate of return as determined in accordance with the contractual provisions of the fund.

The lease pass-through financing funds generally have a one-time lease payment reset mechanism that occurs after the installation of all solar energy systems in a fund. As a result of this mechanism, the Company may be required to refund master lease prepayments previously received from the investors. Any refunds of master lease prepayments would reduce the lease pass-through financing obligation.

Other Contingencies

In July 2012, the Company, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in the Company's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to the Company's applications for

U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for U.S Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S Treasury grant program, including possible misrepresentations concerning the fair market value of the solar energy systems submitted by the Company in U.S. Treasury grant applications. If the Inspector General concludes that misrepresentations were made, the U.S. Department of Justice could decide to bring a civil action to recover amounts it believes were improperly paid to the Company. If the U.S. Department of Justice is successful in asserting this action, the Company could then be required to pay material damages and penalties for any funds received based on such misrepresentations, which, in turn, could require the Company to make indemnity payments to certain fund investors. The Company is unable to estimate the possible loss, if any, associated with this ongoing investigation as information is still being produced by the Company for further review by the Inspector General.

On August 17, 2012, a former outside sales employee filed a putative class action complaint against the Company in the Superior Court of California for the County of Los Angeles. The former outside sales employee purports to represent a class of certain current and former outside sales representatives, and those with a similar title, who worked for the Company in California in the four-year period prior to the filing of the complaint. The complaint alleges causes of action for failure to pay proper wages due under various commission pay plans, failure to properly pay the wages of terminated or resigned employees, failure to provide proper

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itemized wage statements because of an alleged failure to specify requisite information, failure to keep accurate time records and related claims for unfair competition and a California statute permitting individuals to pursue claims not pursued by a state agency. The former outside sales employee seeks unspecified damages for himself and affected class members, including all wages due and owing, applicable statutory penalties (including waiting time penalties), interest, attorneys' fees and costs. On January 24, 2013, the Company answered the complaint and asserted a cross-complaint against the former outside sales employee to recover commissions that he was paid, but not entitled to, along with the Company's fees and costs in the litigation. Discovery has commenced. On July 15, 2014, the Superior Court denied the former outside sales employee's motion to certify a class of similarly situated plaintiffs and denied the former outside sales employee's original application to act as the class representative. The Company intends to defend itself and pursue its own claims vigorously.

On April 30, 2013, the U.S. Department of Labor, or DOL, notified the Company that it was undertaking a wage and hour investigation related to the Company's Foster City, California facility. In the course of this investigation, the DOL subsequently asked the Company to provide information regarding certain employee positions throughout the Company for the three years preceding April 2013. On February 28, 2014, the DOL informed the Company that it had made a preliminary determination that some of its employee positions were not properly classified but has made no assessment of damages or penalties. If the DOL were to conclusively determine that the Company violated labor laws and regulations, the Company would be required to make the appropriate payments of back wages and other amounts to employees, and the Company might be subject to fines or penalties. The Company is currently unable to estimate the maximum potential exposure that may arise from this investigation based on the information currently available. The Company has recognized a liability as a result of this investigation.

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and two of its officers. The complaint alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of our securities from March 6, 2013 to March 18, 2014. The Company believes that the claims are without merit and intends to defend itself vigorously.

On June 5 and 11, 2014, stockholder derivative actions were filed in the Superior Court of California for the County of San Mateo, purportedly on behalf of the Company and against the board of directors, alleging that the board of directors breached its duties to the Company by failing to prevent the conduct alleged in the pending purported stockholder class action lawsuit. The Company believes that the claim is without merit and intends to defend itself vigorously.

From time to time, claims have been asserted, and may in the future be asserted, including claims from regulatory authorities related to labor practices and other matters. Such assertions arise in the normal course of the Company's operations. The resolution of any such assertions or claims cannot be predicted with certainty.

Acquisition Agreement

On June 16, 2014, the Company entered into an agreement to acquire Silevo, Inc., or Silevo, a designer and manufacturer of high efficiency solar energy modules, for \$200.0 million in shares of the Company's common stock and up to an additional \$150.0 million in shares of the Company's common stock upon the achievement of certain milestones as set forth in the agreement. Certain of the consideration may be payable in cash, at the option of the Company. The Company expects that it will internally use the vast majority of the solar panels produced by Silevo for the near future. The closing of the acquisition is subject to several conditions, including approvals by regulatory authorities. The acquisition is scheduled to close in the third quarter of 2014. As the acquisition is still pending, certain disclosures required by ASC 805, *Business Combinations*, have not been made herein.

16. Basic and Diluted Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net loss per share for the periods presented (in thousands, except share and per share amounts):

	Three Months Ended		Six Months Ended June 30	
	2014	2013	2014	2013
Net loss attributable to stockholders	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)
Net loss attributable to common stockholders, basic	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)
Net loss attributable to common stockholders, diluted	\$ (47,652)	\$ (39,463)	\$ (71,715)	\$ (80,380)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic	92,251,767	76,529,698	91,833,936	75,861,802
Weighted-average shares used to compute net loss per share attributable to common stockholders, diluted	92,251,767	76,529,698	91,833,936	75,861,802
Net loss per share attributable to common stockholders, basic	\$ (0.52)	\$ (0.52)	\$ (0.78)	\$ (1.06)
Net loss per share attributable to common stockholders, diluted	\$ (0.52)	\$ (0.52)	\$ (0.78)	\$ (1.06)

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The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because including them would have been antidilutive:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Common stock warrants		603,795		1,041,968
Common stock options	14,602,732	14,892,398	14,498,465	14,806,259
Restricted stock units	134,849	16,991	114,475	16,991
Convertible senior notes	3,729,795		3,729,795	

17. Subsequent Events

In July 2014, the Company issued \$201.5 million in aggregate principal of Solar Asset-backed Notes through a SPE that is wholly owned by the Company. The Solar Asset-backed Notes were issued in two classes, with the senior class having an aggregate principal amount of \$160.0 million and bearing interest at a fixed rate of 4.02% per annum while the junior class had an aggregate principal amount of \$41.5 million and a fixed interest rate of 5.44% per annum. The Solar Asset-backed Notes have a final maturity date of July 20, 2044. The cash flows generated by the assets in the SPE will be used to service the monthly principal and interest payments on the Solar Asset-backed Notes. The SPE's assets and cash flows will not be available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, will have no recourse to the Company's other assets.

In July 2014, the Company formed a new financing fund with an existing fund investor to provide available financing of up to \$20.0 million from the fund investor.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to those statements included elsewhere in this quarterly report on Form 10-Q and with our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 18, 2014. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Risk Factors and elsewhere in this quarterly report on Form 10-Q.

Overview

We integrate the sales, engineering, installation, monitoring, maintenance and financing of our distributed solar energy systems. This allows us to offer long-term energy solutions to residential, commercial and government customers. Our customers buy renewable energy from us for less than they currently pay for electricity from utilities with little to no up-front cost. Our long-term contractual arrangements typically generate recurring customer payments and enable our customers to have insight into their future electricity costs and to minimize their exposure to rising retail electricity rates. Our customer relationships also enable us to continue to offer our customers complimentary products and service offerings including energy storage solutions.

We offer our customers the option to either purchase and own solar energy systems or to purchase the energy that our solar energy systems produce through various contractual arrangements. These contractual arrangements include long-term leases and power purchase agreements. In both structures, we install our solar energy system at our customer's premises and charge the customer a monthly fee for the power that our system produces. In the lease structure, this monthly payment is fixed with a production guarantee. In the power purchase agreement structure, we charge customers a fee per kWh based on the amount of electricity the solar energy system actually produces. The leases and power purchase agreements are typically for 20 years, and generally when there is no upfront prepayment the specified monthly fees are subject to annual escalations.

Our solar energy systems serve as a gateway for us to offer energy-related products and services to our residential customers. To date, revenue attributable to our energy-related products and services has not been material compared to revenue attributable to our solar energy systems.

Our ability to offer leases and power purchase agreements depends in part on our ability to finance the installation of the solar energy systems by monetizing the resulting customer receivables and related investment tax credits, accelerated tax depreciation and other incentives. We expect customers to continue to favor leases and power purchase agreements over our current offerings to purchase and own solar energy systems.

We compete mainly with the retail electricity rate charged by the utilities in the markets we serve, and our strategy is to price the energy we sell below that rate. As a result, the price our customers pay to buy energy from us varies depending on the state where the customer is located and the local utility. The price we charge also depends on customer price sensitivity, the need to offer a compelling financial benefit and the price other solar energy companies charge in the region. Our commercial rates in a given region are also typically lower than our residential rates in that region because utilities' commercial retail rates are generally lower than their residential retail rates.

We generally recognize revenue from solar energy systems sold to our customers when we install the solar energy system and it passes inspection by the utility or the authority having jurisdiction. We account for our leases and power purchase agreements as operating leases. We recognize the revenue these arrangements generate on a straight-line basis over the term for leases, and as we generate and deliver energy for power purchase agreements. We recognize revenue from our energy efficiency business when one of our partners completes the services for the referred customer. Substantially all of our revenue is attributable to customers located in the United States.

We monetize certain government incentives in the form of investment tax credits, or ITCs, under lease pass-through structures by assigning the ITCs to investors in exchange for upfront cash payments. We record the amounts we receive from the investors for the ITCs as a liability, which is subsequently recognized as revenue as the five-year recapture period expires.

The amount of operating lease revenue that we recognize in a given period is dependent in part on the amount of energy generated by solar energy systems under power purchase agreements and by systems with energy output performance incentives, which in turn are dependent in part on the amount of sunlight our systems receive. As a result, operating lease revenue is impacted by seasonally shorter daylight hours in winter months. As the relative percentage of our revenue attributable to power purchase agreements or performance-based incentives increases, this seasonality may become more significant.

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Various state and local agencies offer incentive rebates for the installation and operation of solar energy systems. For solar energy systems we sell, we typically have the customer assign the incentive rebate to us. In these cases, we record the incentive rebates as a component of proceeds from the system sale. For incentive rebates associated with solar energy systems under leases or power purchase agreements, we initially record the rebate as deferred revenue and recognize the deferred revenue as revenue over the term of the lease or power purchase agreement.

Component materials, third-party appliances, and direct labor comprise the substantial majority of the costs of our solar energy systems and energy-related products and services. Under U.S. generally accepted accounting principles, or GAAP, the cost of revenue from our leases and power purchase agreements are primarily comprised of the depreciation of the cost of the solar energy systems, which are depreciated over the estimated useful life of 30 years, and the amortization of initial direct costs, which are amortized over the minimum contractual term of the lease or power purchase agreement, which is typically 20 years.

We have structured different types of financing funds to implement our asset monetization strategy. One such structure is a joint venture structure where we and our fund investors both contribute funds or assets into the joint venture. In accordance with GAAP, we recognize the impact of a hypothetical liquidation of these joint ventures on our condensed consolidated statement of operations. Therefore, after we determine our consolidated net income (loss) for a given period, we allocate a portion of our consolidated net income (loss) to the fund investors in our joint ventures (referred to as the noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries in our condensed consolidated financial statements) and allocate the remainder of the consolidated net income (loss) to our stockholders. These income or loss allocations, reflected on our condensed consolidated statement of operations, can have a significant impact on our reported results of operations. For example, our consolidated net loss was \$88.5 million and \$41.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$163.7 million and \$74.2 million for the six months ended June 30, 2014 and 2013, respectively. However, after applying the required allocations to arrive at the consolidated net loss attributable to our stockholders, the result was a loss of \$47.7 million and \$39.5 million for the three months ended June 30, 2014 and 2013, respectively, and a loss of \$71.7 million and \$80.4 million for the six months ended June 30, 2014 and 2013, respectively. For a more detailed discussion of this accounting treatment, see Components of Results of Operations Net Income (Loss) Attributable to Stockholders.

Financing Funds

Our lease and power purchase agreements in conjunction with the associated solar energy systems create ITCs, accelerated tax depreciation deductions and other incentives. Our financial strategy is to monetize these attributes or assets to generate cash. Through this monetization process, we are able to share the economic benefits generated by the solar energy system with our customers by lowering the price they pay for energy. Historically, we have monetized the assets created by substantially all of our leases and power purchase agreements via funds we have formed with fund investors. Depending on the structure of the fund, we may contribute or sell solar energy systems to the fund and assign certain of the tax attributes and other incentives associated with the solar energy systems to the investors, and in return, we receive upfront cash payments from the investors.

We also enter into arrangements that allow us to borrow against the future recurring customer payments under the solar system leases and power purchase agreements. Through the financing funds, we are able to retain the residual value in leases and the solar energy systems themselves. We use the cash received from the investors to cover our operating and capital costs including the variable and fixed costs associated with installing the related solar energy systems. Because these recurring customer payments are from individuals or commercial businesses with high credit scores, and because electricity is a necessity, our fund investors perceive these as high-quality assets with a relatively low loss rate. We invest any excess cash in the growth of our business.

Joint Ventures. Under joint venture structures, we and our fund investors contribute funds into a joint venture. Then, the joint venture acquires solar energy systems from us and leases the solar energy systems to customers. Prior to the fund investor receiving its contractual rate of return or for a time period specified in the contractual arrangements, the fund investors receive substantially all of the value attributable to the long-term recurring customer payments, ITCs, accelerated tax depreciation and, in some cases, other incentives. After the fund investor receives its contractual rate of return or after the specified time period, we receive substantially all of the value attributable to the long-term recurring customer payments and the other incentives.

We have determined that we are the primary beneficiary in these joint venture structures. Accordingly, we consolidate the assets and liabilities and operating results of these joint ventures, including the solar energy systems and operating lease revenue, in our condensed consolidated financial statements. We recognize the fund investors' share of the net assets of the joint ventures as noncontrolling interests in subsidiaries or redeemable noncontrolling interests in subsidiaries in our condensed consolidated balance sheets. We recognize the amounts that are contractually payable to these investors in each period as distributions to noncontrolling interests or redeemable noncontrolling interests in subsidiaries in our condensed consolidated statements of convertible redeemable preferred stock and equity. Our condensed consolidated statements of cash flows reflect cash received from these fund investors as proceeds from investments by noncontrolling interests and redeemable noncontrolling interests in subsidiaries. Our condensed consolidated statements of cash flows also reflect cash paid to these fund investors as distributions paid to noncontrolling interests and redeemable noncontrolling interests in subsidiaries. We reflect any unpaid distributions to these fund investors as distributions payable to noncontrolling interests and redeemable noncontrolling interests in subsidiaries in our condensed consolidated balance sheets.

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Lease Pass-Through. Under lease pass-through structures, we lease solar energy systems to fund investors under a master lease agreement, and these investors in turn sublease the solar energy systems to customers. We receive all of the value attributable to the accelerated tax depreciation and some or all of the value attributable to the other incentives. We assign to the fund investors the value attributable to the ITCs, the right to receive U.S. Treasury Department grants and, for the duration of the master lease term, the long-term recurring customer payments. The investors typically make significant upfront cash payments that we classify and allocate between the right to the ITCs, where applicable, and the future customer lease payments and other benefits assigned to the investor, which are recorded as a lease pass-through financing obligation. After the master lease term expires, we receive the customer payments, if any. We record the solar energy systems on our condensed consolidated balance sheets as a component of solar energy systems, leased and to be leased net. We record the amounts allocated to the ITCs as deferred revenue on our condensed consolidated balance sheets as the associated solar energy systems are placed in service. We then recognize the deferred revenue in our condensed consolidated statements of operations as revenue, by reducing the deferred revenue balance at each reporting date as the five-year recapture period expires. We record the balance of the amounts received from fund investors as lease pass-through financing obligations on our condensed consolidated balance sheets and subsequently reduce these obligations by the amounts received by the fund investors from U.S. Treasury Department grants, where applicable, customer payments and the associated incentive rebates. We in turn recognize the incentive rebates and customer payments as revenue over the customer lease term and amortize U.S. Treasury Department grants as a reduction to depreciation of the associated solar energy systems over the estimated life of these systems.

Sale-Leaseback. Under sale-leaseback structures, we generate cash through the sale of solar energy systems to fund investors, and we then lease these systems back from the investors and sublease them to our customers. For the duration of the lease term, we may, for some of the structures, receive the value attributable to the incentives and the long-term recurring customer payments, and we make leaseback payments to the fund investors. The fund investors receive the customer payments after the lease term. They also receive the value attributable to the ITCs, accelerated depreciation and other incentives. At the end of the lease term, we have the option to purchase the solar energy systems from the fund investors. Typically, our customers make monthly lease payments that we recognize as revenue over the term of the subleases on a straight-line basis. Depending on the design, size and construction of the individual systems and the leaseback terms, we may recognize a portion of the revenue from the sale of the systems or we may treat the cash received from the sale as financing received from the fund investors and reflect the cash received as a sale-leaseback financing obligation on our condensed consolidated balance sheets.

Securitization. Under securitization arrangements, we pool and transfer qualifying solar energy systems and the associated customer contracts into a special purpose entity, or SPE, and issue notes backed by these solar assets to investors. The SPE is wholly owned by us and is consolidated in our condensed consolidated financial statements. Accordingly, we do not recognize a gain or loss on the transfer of these solar assets. The notes bear interest at a rate determined on the issuance of the notes. The cash flows generated by these solar assets are used to service the principal and interest payments on the notes, meet the SPE's expenses, and any remaining cash is distributed to us. We recognize the revenue earned from the associated customer contracts in our condensed consolidated financial statements. The assets and cash flows generated by the securitized solar energy systems are not available to our other creditors, and the creditors of the SPE, including the note holders, have no recourse to our other assets.

Key Operating Metrics

We regularly review a number of metrics, including the following key operating metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Customers

We track the number of residential, commercial and government customers where we have installed or contracted to install a solar energy system, or performed or contracted to perform an energy-related consultation or other energy efficiency services. We believe that the relationship we establish with building owners, together with the energy-related information we obtain about the buildings, position us to provide the owners with additional solutions to further lower their energy costs. Our cumulative number of customers increased by 52% to 141,034 as of June 30, 2014 from 92,998 as of December 31, 2013.

Energy Contracts

We define an energy contract as a residential, commercial or government lease or power purchase agreement pursuant to which consumers use or will use energy generated by a solar energy system that we have installed or have been contracted to install. For landlord-tenant structures in which we contract with the landlord or development company, we include each residence as an individual contract. For commercial customers with multiple locations, each location is deemed a contract if we maintain a separate contract for that location. We track the cumulative number of energy contracts as of the end of a given period as an indicator of our historical growth and as an indicator of our rate of growth from period to period.

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The following table sets forth our cumulative number of energy contracts as of the dates presented:

	June 30, 2014	December 31, 2013
Cumulative energy contracts	128,933	83,265

Megawatts Deployed and Cumulative Megawatts Deployed

We track the megawatt production capacity of our solar energy systems that have had all required building department inspections completed. This metric includes solar energy systems deployed under energy contracts as well as solar energy system direct sales. Because the size of our solar energy systems varies greatly, we believe that tracking the megawatt production capacity of the systems is an indicator of the growth rate of our solar energy system business. We track the megawatts deployed in a given period as an indicator of asset growth in the period. We track cumulative megawatts deployed as of the end of a given period as an indicator of our historical growth and our future opportunity to provide customers with additional solutions to further lower their energy costs.

The following table sets forth the megawatt production capacity of solar energy systems that we have deployed during the periods presented and the cumulative megawatts deployed as of the end of each period presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Megawatts deployed	107	53	189	99
Cumulative megawatts deployed	756	387	756	387

Nominal Contracted Payments

Our leases and power purchase agreements create long-term recurring customer payments. We use a portion of the value created by these contracts, which we refer to as nominal contracted payments, together with the value attributable to ITCs, accelerated depreciation, solar renewable energy credits, performance-based incentives, state tax benefits and rebates to cover the fixed and variable costs associated with installing solar energy systems.

We track the estimated nominal contracted payments of our leases and power purchase agreements entered into as of specified dates. Nominal contracted payments equal the sum of the cash payments that the customer is obligated to pay over the term of the agreement. When calculating nominal contracted payments, we only include those leases and power purchase agreements that have been signed. For a lease, we include the monthly fee and the upfront fee as set forth in the lease. As an example, the nominal contracted payments for a 20-year lease with monthly payments of \$200 and an upfront payment of \$5,000 is \$53,000. For a power purchase agreement, we multiply the contract price per kWh by the estimated annual energy output of the associated solar energy system to determine the nominal contracted payments. The nominal contracted payments of a particular lease or power purchase agreement decline as the payments are received by us or a fund investor. Aggregate nominal contracted payments include leases and power purchase agreements that we have contributed to financing funds. Currently, fund investors have contractual rights to a portion of these nominal contracted payments.

Estimated nominal contracted payments remaining is a forward-looking number, and we use judgment in developing the assumptions used to calculate it. Those assumptions may not prove to be accurate over time. Underperformance of

the solar energy systems, payment defaults by our customers, cancellation of signed contracts or other factors described under the heading **Risk Factors** could cause our actual results to differ materially from our calculation of nominal contracted payments.

The following table sets forth, with respect to our leases and power purchase agreements, the estimated aggregate nominal contracted payments remaining as of the dates presented (in thousands):

	June 30, 2014	December 31, 2013
Estimated aggregate nominal contracted payments remaining	\$ 3,311,942	\$ 1,990,059

In addition to nominal contracted payments, our leases and power purchase agreements provide us with a significant post-contract renewal opportunity. Because our solar energy systems have an estimated life of 30 years, they will continue to have a useful life after the 20-year term of their leases or power purchase agreements. At the end of an original contract term, we intend to offer our customer a renewal contract. The solar energy system will already be installed on the customer's building, which will facilitate the customer's acceptance of our renewal offer and will result in limited additional costs to us.

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There were no material changes to our critical accounting policies or estimates during the six months ended June 30, 2014 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2013.

Results of Operations

The following table sets forth selected condensed consolidated statements of operations data for each of the periods indicated (in thousands, except share and per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Operating leases and solar energy systems incentives	\$ 43,181	\$ 20,608	\$ 72,253	\$ 35,697
Solar energy systems and component sales	18,153	17,341	52,627	32,240
Total revenue	61,334	37,949	124,880	67,937
Cost of revenue:				
Operating leases and solar energy systems incentives	20,826	6,794	36,805	12,546
Solar energy systems and component sales	17,635	23,014	50,417	39,721
Total cost of revenue	38,461	29,808	87,222	52,267
Gross profit	22,873	8,141	37,658	15,670
Operating expenses:				
Sales and marketing	55,771	21,344	102,621	39,223
General and administrative	38,387	21,917	71,398	38,028
Research and development	3,000	349	4,923	609
Total operating expenses	97,158	43,610	178,942	77,860
Loss from operations	(74,285)	(35,469)	(141,284)	(62,190)
Interest expense, net	12,892	5,421	20,871	11,740
Other expense, net	1,307	162	1,332	302
Loss before income taxes	(88,484)	(41,052)	(163,487)	(74,232)
Income tax (provision) benefit	24	(25)	(191)	80
Net loss	(88,460)	(41,077)	(163,678)	(74,152)
Net (loss) income attributable to noncontrolling interests and redeemable noncontrolling interests	(40,808)	(1,614)	(91,963)	6,228

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Net loss attributable to stockholders	\$	(47,652)	\$	(39,463)	\$	(71,715)	\$	(80,380)
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Net loss per share attributable to common stockholders:

Basic	\$	(0.52)	\$	(0.52)	\$	(0.78)	\$	(1.06)
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Diluted	\$	(0.52)	\$	(0.52)	\$	(0.78)	\$	(1.06)
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Weighted-average shares used to compute net loss per share attributable to common stockholders:

Basic	92,251,767	76,529,698	91,833,936	75,861,802
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Diluted	92,251,767	76,529,698	91,833,936	75,861,802
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Three months ended June 30, 2014 and 2013

Revenue

(Dollars in thousands)	Three Months Ended		Change	
	2014	2013	\$	%
Operating leases and solar energy systems incentives	\$ 43,181	\$ 20,608	22,573	110
Solar energy systems and component sales	18,153	17,341	812	5
Total revenue	\$ 61,334	\$ 37,949	23,385	62

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Total revenue increased by \$23.4 million, or 62%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

Operating leases and solar energy systems incentives revenue increased by \$22.6 million, or 110%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This increase was attributable to the increase in solar energy systems placed in service under leases and power purchase agreements between July 1, 2013 and June 30, 2014. The in-period average of the aggregate megawatt production capacity of solar energy systems placed in service under leases and power purchase agreements during the three months ended June 30, 2014 increased by 107% as compared to the in-period average during the three months ended June 30, 2013. This significant growth was attributable to our continued success in the installation and operation of solar energy systems under lease and power purchase agreements in new and existing markets. However, the impact of the installed base on the increase in revenue varied by the mix between solar energy systems under leases, for which revenue is recognized on a straight-line basis over the lease term, and power purchase agreements, for which revenue is recognized based on energy produced. The average percent of the in-period aggregate megawatt production capacity of solar energy systems placed in service under power purchase agreements from July 1, 2013 to June 30, 2014 increased from 48% to 55%, which increased the effect of seasonality in the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

Revenue from sales of solar energy systems and components increased by \$0.8 million, or 5%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This increase was primarily due to a \$6.1 million increase in revenue from long-term solar energy system sales contracts recognized on the percentage-of-completion basis, a \$2.2 million increase in revenue from sales to commercial customers and a \$1.2 million increase in revenue from sales to residential customers. These increases were partially offset by a \$7.0 million decrease in revenue from sales to government entities, a \$1.6 million decrease in revenue from sales of energy efficiency products and services and a \$0.5 million decrease in revenue from installations of electric vehicle charging stations. In addition, we recognized \$0.4 million of revenue from sales of Zep Solar products in the three months ended June 30, 2014. Zep Solar was a business that we acquired in December 2013, and the sales of Zep Solar products were made to satisfy orders that were outstanding prior to our acquisition. We do not have plans and do not expect to sell Zep Solar products in the domestic market in the foreseeable future, but we are currently exploring selling these products in international markets.

Cost of Revenue, Gross Profit and Gross Profit Margin

(Dollars in thousands)	Three Months Ended		Change	
	2014	2013	\$	%
Operating leases and solar energy systems incentives	\$ 20,826	\$ 6,794	14,032	207
Gross profit of operating leases and solar energy systems incentives	22,355	13,814	8,541	62
Gross profit margin of operating leases and solar energy systems incentives	52%	67%		
Solar energy systems and component sales	\$ 17,635	\$ 23,014	(5,379)	(23)
Gross profit (loss) of solar energy systems and component sales	518	(5,673)	6,191	109
Gross profit (loss) margin of solar energy systems and component sales	3%	(33)%		

Total cost of revenue	\$ 38,461	\$ 29,808	8,653	29
Total gross profit	22,873	8,141	14,732	181
Total gross profit margin	37%	21%		

Cost of operating leases and solar energy systems incentives revenue increased by \$14.0 million, or 207%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This increase was primarily due to the increase in depreciation expense arising from the higher aggregate cost of an increased number of solar energy systems placed in service under leases and power purchase agreements, the increased costs associated with the operation, maintenance and warranty of these systems, contract cancellations by customers prior to the completion of solar energy system installation and the amortization of the intangible assets from the Zep Solar acquisition. Additionally, we incurred \$4.7 million of increased period costs related to our warranties to our customers, our dedicated operations and maintenance department and contract cancellations by customers prior to the completion of the solar energy system installation. We also incurred \$2.0 million in the three months ended June 30, 2014 related to the amortization of the intangible assets from the Zep Solar acquisition. The gross profit margin of operating leases and solar energy systems incentives decreased to 52% for the three months ended June 30, 2014 from 67% for the three months ended June 30, 2013. This was due in part to the increased period costs and the amortization of intangible assets and the winding-down of the U.S. Treasury grant program, which decreased the impact of amortization of U.S. Treasury grants received on the cost of operating lease and solar energy systems incentives. The amortization of U.S. Treasury grants received as a percentage of depreciation expense decreased from 46% for the three months ended June 30, 2013 to 26% for the three months ended June 30, 2014.

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Cost of solar energy systems sales decreased by \$5.4 million, or 23%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. The gross margin improved from (33)% to 3% primarily due to the low or negative margins on large commercial and government sales in the three months ended June 30, 2013. In addition, the increase in the megawatt production capacity of solar energy systems completed or under installation, in the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, resulted in the allocation of overhead costs over more megawatts of production capacity, which led to a lower cost per megawatt of production capacity. We also recognized a \$0.7 million lower provision for warranties and anticipated upfront losses on solar energy system sales contracts in the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

Operating Expenses

(Dollars in thousands)	Three Months Ended		Change	
	June 30, 2014	June 30, 2013	\$	%
Sales and marketing expense	\$ 55,771	\$ 21,344	34,427	161
General and administrative expense	38,387	21,917	16,470	75
Research and development	3,000	349	2,651	760
Total operating expenses	\$ 97,158	\$ 43,610	53,548	123

Sales and marketing expense increased by \$34.4 million, or 161%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This increase was primarily due to more expansive sales and marketing efforts, which have resulted in increased customers. In particular, we acquired certain assets of a leading direct-to-consumer marketer, Paramount Energy, including its employees, technology and tools, in the third quarter of 2013, and we created a dedicated door-to-door direct sales group in the fourth quarter 2013. These initiatives increased the average number of personnel in sales and marketing departments by 234% for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by \$22.2 million, or 139%, of which \$3.2 million attributable to stock-based compensation, and allocated facilities and operations costs increased by \$4.0 million. In addition, promotional marketing costs increased by \$4.7 million. Furthermore, during the three months ended June 30, 2014, we amortized \$2.9 million of marketing-related intangible assets acquired through the Paramount Energy and Zep Solar acquisitions. We expect that our increased investment in sales and marketing efforts will continue to drive the future growth of our business.

General and administrative expense increased by \$16.5 million, or 75%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This was primarily due to the increase in the average number of personnel in general and administrative departments, which grew by 38% for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by \$14.9 million, or 116%, of which \$5.2 million was attributable to stock-based compensation. In addition, we recognized \$2.6 million of general and administrative expenses incurred by Zep Solar in the three months ended June 30, 2014.

Research and development expense increased by \$2.7 million, or 760%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This was primarily due to research and development activities by Zep Solar in the three months ended June 30, 2014.

Other Income and Expenses

(Dollars in thousands)	Three Months Ended		Change	
	June 30,	June 30,	\$	%
	2014	2013		
Interest expense, net	\$ 12,892	\$ 5,421	7,471	138
Other expense, net	1,307	162	1,145	707
Total interest and other expenses, net	\$ 14,199	\$ 5,583	8,616	154

Interest expense, net, increased by \$7.5 million, or 138%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. The interest expense, net, related to our cash borrowings increased by \$6.1 million as a result of the higher average carrying balances on our borrowing facilities for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. Additionally, interest expense, net related to lease pass-through financing obligations increased by \$1.4 million mainly due to additional interest paid to a fund investor in the three months ended June 30, 2014, on borrowing that had not been utilized by a deadline stipulated in the contractual documents of the financing fund.

Table of Contents***Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests***

(Dollars in thousands)	Three Months Ended		Change	
	2014	2013	\$	%
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	\$ (40,808)	\$ (1,614)	(39,194)	2428

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests represents the share of net loss that was allocated to the investors in the joint venture financing funds. This amount was determined as the change in the investors' interests in the joint venture financing funds between the beginning and end of each reported period calculated primarily using the hypothetical liquidation at book value, or HLBV, method, less any capital contributions net of any capital distributions. The calculation depends on the specific contractual liquidation provisions of each joint venture financing fund and is generally affected by, among other factors, the tax attributes allocated to the investors including tax bonus depreciation and investment tax credits or U.S. Treasury grants in lieu of the investment tax credits, the existence of guarantees of minimum returns to the investors by us, and the allocation of tax income or losses including provisions that govern the level of deficits that can be funded by the investors in a liquidation scenario. The calculation is also affected by the cost of the assets sold or contributed to the joint venture financing funds, which forms the book basis of the net assets allocated to the investors assuming a liquidation scenario. Generally, significant loss allocations to the investors have arisen in situations where there was a significant difference between the fair value and the cost of the assets sold or contributed to the joint venture financing funds in a particular period accompanied by the absence of guarantees of minimum returns to the investors by us, since the capital contributions by the investors were based on the fair value of the assets while the calculation is based on the cost of the assets. The existence of guarantees of minimum returns to the investors by us and limits on the level of deficits that the investors are contractually obligated to fund in a liquidation scenario reduce the amount of losses that could be allocated to the investors. In addition, the redeemable noncontrolling interests balance is at least equal to the redemption amount.

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended June 30, 2014 was \$40.8 million while the net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended June 30, 2013 was \$1.6 million. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended June 30, 2014 was primarily due to the \$49.6 million loss allocation from financing funds into which we were selling or contributing assets. Additionally, \$8.7 million of income was allocated to noncontrolling interests and redeemable noncontrolling interests in an entity that had a lease pass-through joint venture arrangement with us that was terminated in the period. In conjunction with the termination of the lease pass-through arrangement the contractual agreements of this fund were amended to grant the investor redemption rights of its investment in the fund and accordingly we adjusted the carrying value of the redeemable noncontrolling interest balance to its redemption amount resulting to \$8.5 million additional income allocation to the investor. The net income allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended June 30, 2013 was mainly due to income allocated to investors in funds that were fully funded partially offset by losses allocated to investors in funds into which we sold or contributed assets.

Six months ended June 30, 2014 and 2013***Revenue***

(Dollars in thousands)	Six Months Ended		Change	
	June 30,		\$	%
	2014	2013		
Operating leases and solar energy systems incentives	\$ 72,253	\$ 35,697	36,556	102
Solar energy systems sales	52,627	32,240	20,387	63
Total revenue	\$ 124,880	\$ 67,937	56,943	84

Total revenue increased by \$56.9 million, or 84%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

Operating leases and solar energy systems incentives revenue increased by \$36.6 million, or 102%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was attributable to the increase in solar energy systems placed in service under leases and power purchase agreements between July 1, 2013 and June 30, 2014. The in-period average of the aggregate megawatt production capacity of solar energy systems placed in service under leases and power purchase agreements during the six months ended June 30, 2014 increased by 103% as compared to the in-period average during the six months ended June 30, 2013. This significant growth was attributable to our continued success in the installation and operation of solar energy systems under lease and power purchase agreements in new and existing markets. However, the impact of the installed base on the increase in revenue varied by the mix between solar energy systems under leases, for which revenue is recognized on a straight-line basis over the lease term, and power purchase agreements, for which revenue is recognized based on energy produced. The average percent of the in-period aggregate megawatt production capacity of solar energy systems placed in service under power purchase agreements from July 1, 2013 to June 30, 2014 increased from 47% to 55%, which increased the effect of seasonality in the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

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Revenue from sales of solar energy systems and components increased by \$20.4 million, or 63%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was primarily due to a \$23.6 million increase in revenue from long-term solar energy system sales contracts recognized on the percentage-of-completion basis, a \$6.0 million increase in revenue from sales to commercial customers and a \$3.6 million increase in revenue from sales to residential customers. These increases were partially offset by a \$16.8 million decrease in revenue from sales to government entities, a \$4.2 million decrease in revenue from sales of energy efficiency products and services and a \$0.8 million decrease in revenue from installations of electric vehicle charging stations. In addition, we recognized \$9.0 million of revenue from sales of Zep Solar products in the six months ended June 30, 2014.

Cost of Revenue, Gross Profit and Gross Profit Margin

(Dollars in thousands)	Six Months Ended		Change	
	2014	2013	\$	%
Operating leases and solar energy systems incentives	\$ 36,805	\$ 12,546	24,259	193
Gross profit of operating leases and solar energy systems incentives	35,448	23,151	12,297	53
Gross profit margin of operating leases and solar energy systems incentives	49%	65%		
Solar energy systems sales	\$ 50,417	\$ 39,721	10,696	27
Gross profit (loss) of solar energy systems sales	2,210	(7,481)	9,691	130
Gross profit (loss) margin of solar energy systems sales	4%	(23)%		
Total cost of revenue	\$ 87,222	\$ 52,267	34,955	67
Total gross profit	37,658	15,670	21,988	140
Total gross profit margin	30%	23%		

Cost of operating leases and solar energy systems incentives revenue increased by \$24.3 million, or 193%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was primarily due to the increase in depreciation expense arising from the higher aggregate cost of solar energy systems placed in service under leases and power purchase agreements, the increased costs associated with the operation, maintenance and warranty of these systems, contract cancellations by customers prior to the completion of solar energy system installation and the amortization of the intangible assets from the Zep Solar acquisition. Additionally, we incurred \$8.2 million of increased period costs related to our warranties to our customers, our dedicated operations and maintenance department and contract cancellations by customers prior to the completion of the solar energy system installation. We also incurred \$2.9 million in the six months ended June 30, 2014 related to the amortization of the intangible assets from the Zep Solar acquisition. The gross profit margin of operating leases and solar energy systems incentives decreased to 49% for the six months ended June 30, 2014 from 65% for the six months ended June 30, 2013. This was due in part to the increased period costs and the amortization of intangible assets, as mentioned above, and to the winding-down of the U.S. Treasury grant program, which decreased the impact of amortization of U.S. Treasury grants received on the cost of operating lease and solar energy systems incentives. The amortization of U.S. Treasury grants received as a percentage of depreciation expense decreased from 47% for the six months ended June 30, 2013 to 28% for the six months ended June 30, 2014.

Cost of solar energy systems sales increased by \$10.7 million, or 27%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was primarily due to the increase in sales of solar energy systems and the cost of Zep Solar products sold. In addition, we recognized a \$1.0 million lower provision for

warranties and anticipated upfront losses on solar energy system sales contracts in the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. The gross margin improved from (23)% to 4% primarily due to the higher margins from sales of Zep Solar products in the six months ended June 30, 2014 and the low or negative margins on large commercial and government sales incurred in the six months ended June 30, 2013.

Operating Expenses

(Dollars in thousands)	Six Months Ended		Change	
	2014	2013	\$	%
Sales and marketing expense	\$ 102,621	\$ 39,223	63,398	162
General and administrative expense	71,398	38,028	33,370	88
Research and development	4,923	609	4,314	708
Total operating expenses	\$ 178,942	\$ 77,860	101,082	130

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Sales and marketing expense increased by \$63.4 million, or 162%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was primarily due to more expansive sales and marketing efforts, which have resulted in increased customers. In particular, we acquired certain assets of a leading direct-to-consumer marketer, Paramount Energy, including its employees, technology and tools, in the third quarter of 2013, and we created a dedicated door-to-door direct sales group in the fourth quarter 2013. These initiatives increased the average number of personnel in sales and marketing departments by 186% for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by \$41.4 million, or 141%, of which \$5.6 million attributable to stock-based compensation, and allocated facilities and operations costs increased by \$6.6 million. In addition, promotional marketing costs increased by \$7.9 million. Furthermore, during the six months ended June 30, 2014, we amortized \$5.8 million of marketing-related intangible assets acquired through the Paramount Energy and Zep Solar acquisitions. We expect that our increased investment in sales and marketing efforts will continue to drive the future growth of our business.

General and administrative expense increased by \$33.4 million, or 88%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This was primarily due to the increase in the average number of personnel in general and administrative departments, which grew by 32% for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by \$24.5 million, or 108%, of which \$10.8 million was attributable to stock-based compensation, and allocated facilities and operations costs increased by \$4.2 million. In addition, we recognized \$5.2 million of general and administrative expenses incurred by Zep Solar in the six months ended June 30, 2014.

Research and development expense increased by \$4.3 million, or 708%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This was primarily due to research and development activities by Zep Solar in the six months ended June 30, 2014.

Other Income and Expenses

(Dollars in thousands)	Six Months Ended		Change	
	2014	2013	\$	%
Interest expense, net	\$ 20,871	\$ 11,740	9,131	78
Other expense, net	1,332	302	1,030	341
Total interest and other expenses, net	\$ 22,203	\$ 12,042	10,161	84

Interest expense, net, increased by \$9.1 million, or 78%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. The interest expense, net, related to our cash borrowings increased by \$10.2 million as a result of the higher average carrying balances on our borrowing facilities for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. The increase in interest expense, net, related to borrowings was offset by a \$1.1 million decrease in interest expense, net, related to lease pass-through financing obligations mainly due to lower average carrying balances of our lease pass-through financing obligations for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

Net (Loss) Income Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

(Dollars in thousands)	Six Months Ended June 30,		Change	
	2014	2013	\$	%
Net (loss) income attributable to noncontrolling interests and redeemable noncontrolling interests	\$ (91,963)	\$ 6,228	(98,191)	1577

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests represents the share of net loss that was allocated to the investors in the joint venture financing funds. This amount was determined as the change in the investors' interests in the joint venture financing funds between the beginning and end of each reported period calculated primarily using the HLBV method, less any capital contributions net of any capital distributions. The calculation depends on the specific contractual

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liquidation provisions of each joint venture financing fund and is generally affected by, among other factors, the tax attributes allocated to the investors including tax bonus depreciation and investment tax credits or U.S. Treasury grants in lieu of the investment tax credits, the existence of guarantees of minimum returns to the investors by us, and the allocation of tax income or losses including provisions that govern the level of deficits that can be funded by the investors in a liquidation scenario. The calculation is also affected by the cost of the assets sold or contributed to the joint venture financing funds, which forms the book basis of the net assets allocated to the investors assuming a liquidation scenario. Generally, significant loss allocations to the investors have arisen in situations where there was a significant difference between the fair value and the cost of the assets sold or contributed to the joint venture financing funds in a particular period accompanied by the absence of guarantees of minimum returns to the investors by us, since the capital contributions by the investors were based on the fair value of the assets while the calculation is based on the cost of the assets. The existence of guarantees of minimum returns to the investors by us and limits on the level of deficits that the investors are contractually obligated to fund in a liquidation scenario reduce the amount of losses that could be allocated to the investors. In addition, the redeemable noncontrolling interests balance is at least equal to the redemption amount.

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the six months ended June 30, 2014 was \$92.0 million while the net income attributable to noncontrolling interests and redeemable noncontrolling interests for the six months ended June 30, 2013 was \$6.2 million. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the six months ended June 30, 2014 was primarily due to the \$108.5 million loss allocation from financing funds into which we were selling or contributing assets. This loss allocation was partially offset by a \$5.5 million income allocation related to financing funds that were fully funded and that we were not selling or contributing additional assets. Additionally, \$11.0 million of income was allocated to noncontrolling interests and redeemable noncontrolling interests in an entity that has a lease pass-through joint venture arrangement with us including \$8.5 million income allocated due to adjusting the carrying amount of the redeemable noncontrolling interest balance to its redemption amount following amendments to the contractual agreements of this fund that granted the investor redemption rights of its investment in the fund in conjunction with termination of the lease pass-through arrangement. The net income allocation to noncontrolling interests and redeemable noncontrolling interests for the six months ended June 30, 2013 was mainly due to income allocated to investors in funds that were fully funded partially offset by losses allocated to investors in funds into which we sold or contributed assets.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated cash flows:

	Six Months Ended June	
	30,	
	2014	2013
	(in thousands)	
Net cash (used in) provided by operating activities	\$ (59,794)	\$ 67,134
Net cash used in investing activities	(469,356)	(284,344)
Net cash provided by financing activities	357,331	216,736
Net decrease in cash and cash equivalents	\$ (171,819)	\$ (474)

We finance our operations, including the costs of acquisition and installation of solar energy systems, mainly through a variety of financing fund arrangements that we have formed with fund investors, credit facilities from banks, equity offerings and cash generated from our operations. As described below under Financing Activities Financing Fund Commitments, as of June 30, 2014, we had \$677.3 million of available commitments from our fund investors, including a \$344.0 million financing fund structured as a debt facility, that would be available through our asset monetization strategy.

While we had a net loss for the six months ended June 30, 2014, we believe that our existing cash and cash equivalents, funds available under a secured credit facility and funds available in our existing financing funds that can be drawn-down through our asset monetization strategy will be sufficient to meet our cash requirements for at least the next 12 months.

Operating Activities

In the six months ended June 30, 2014, we utilized \$59.8 million in net cash from operations. This cash outflow primarily resulted from a net loss of \$163.7 million, reduced by non-cash items such as depreciation and amortization of \$40.0 million, stock-based compensation of \$28.9 million and interest on lease pass-through financing obligations of \$5.8 million and increased by a reduction in lease pass-through financing obligation of \$23.0 million. This cash outflow also increased in part due to an increase in restricted cash of \$4.9 million, an increase in rebates receivable of \$4.7 million, an increase in inventories of \$32.5 million, an increase in prepaid expenses and other current assets of \$16.7 million and a decrease in accrued and other liabilities of \$7.5 million. This cash outflow was offset by an increase in deferred revenue of \$103.1 million relating to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments and deferred investment tax credits revenue and an increase in accounts payable of \$20.3 million.

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In the six months ended June 30, 2013, we generated \$67.1 million in net cash from operations. This cash inflow primarily resulted from an increase in deferred revenue of \$79.6 million relating to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments, a decrease in inventories of \$19.3 million, an increase in accounts payable of \$14.7 million and an increase in accrued liabilities of \$30.5 million. The cash inflow was offset in part by an increase in prepaid expenses and other current assets of \$12.7 million, an increase in rebates receivable of \$2.7 million and a net loss of \$74.2 million, reduced by non-cash items such as depreciation and amortization of \$15.6 million, stock-based compensation of \$7.6 million and interest on lease pass-through financing obligation of \$6.9 million and increased by a reduction in lease pass-through financing obligation of \$14.2 million.

Investing Activities

Our investing activities consisted primarily of capital expenditures.

In the six months ended June 30, 2014, we used \$469.4 million in investing activities. Of this amount, we used \$450.3 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and \$7.6 million in the acquisition of vehicles, office equipment, leasehold improvements and furniture and \$0.5 million for the acquisition of the redeemable noncontrolling interest related to a single joint venture financing fund. We also invested \$11.0 million in promissory notes receivable and other advances to a third party.

In the six months ended June 30, 2013, we used \$284.3 million in investing activities. Of this amount, we used \$280.5 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and \$3.9 million in the acquisition of vehicles, office equipment, leasehold improvements and furniture.

Financing Activities

In the six months ended June 30, 2014, we generated \$357.3 million from financing activities. We received \$198.9 million, net of lender fees, from long-term debt and repaid \$52.3 million of long-term debt. We received \$67.4 million, net of issuance costs, from the issuance of solar asset-backed notes and repaid \$2.2 million of the solar asset-backed notes. We also repaid \$0.4 million of our capital lease obligation. We received \$0.4 million from U.S. Treasury Department grants associated with solar energy systems that we had leased to customers. We received \$19.0 million from fund investors in our lease pass-through financing funds and paid \$6.4 million to fund investors in our lease pass-through financing funds. We also generated \$216.1 million from proceeds from investments by various fund investors in our joint ventures and paid distributions to fund investors of \$90.5 million. Additionally, we received \$8.4 million from the issuance of common stock upon the exercise of stock options for cash.

In the six months ended June 30, 2013, we generated \$216.7 million from financing activities. We received \$34.5 million, net of fees, from long-term debt. We repaid \$18.6 million of long-term debt and \$1.2 million of our capital lease obligation. We received an additional \$98.5 million from U.S. Treasury grants associated with our solar energy systems that we had leased to customers. We also received \$20.6 million from fund investors in our lease pass-through financing funds and \$146.1 million from fund investors in our joint ventures. We paid distributions to fund investors of \$76.2 million. Additionally, we received \$5.3 million from the issuance of common stock upon the exercise of stock options for cash and an additional \$8.0 million from the issuance of common stock upon the exercise of common stock warrants.

Secured Credit Agreements, Solar Asset-backed Notes and Financing Fund Commitments

There were no material changes to our secured credit agreements, solar asset-backed notes and financing fund commitments during the six months ended June 30, 2014 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2013 other than as noted under Liquidity and Capital Resources above and as noted below.

Secured Credit Agreements:

In January 2014, our existing term loan agreement was amended to increase the maximum term loan availability from \$100.0 million to \$158.0 million.

In February 2014, one of our subsidiaries entered into an agreement with a syndicate of banks for a term loan of \$100.0 million. On February 20, 2014, the agreement was amended to increase the maximum term loan availability to \$220.0 million. On March 20, 2014, the agreement was further amended to increase the maximum term loan availability to \$250.0 million. The term loan bears interest at an annual rate of LIBOR plus 3.25% or, at our option, 3.25% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published prime rate or (iii) LIBOR plus 1.00%. As of June 30, 2014, the interest rates ranged between

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3.40% and 3.48%. The term loan is secured by the assets and cash flows of the subsidiary and is non-recourse to our other assets. The term loan matures on December 31, 2016. Through June 30, 2014, we had borrowed an aggregate of \$45.6 million under the term loan. Of the amount borrowed, \$44.5 million, net of fees, were outstanding as of June 30, 2014, all of which are included in the condensed consolidated balance sheets under long-term debt, net of current portion. We were in compliance with all debt covenants as of June 30, 2014.

In May 2014, one of our subsidiaries entered into an agreement with a syndicate of banks for a term loan of \$125.0 million. The term loan bears interest at an annual rate of 3.00% to 4.00%, depending on the cumulative period the term loan has been outstanding, plus LIBOR or, at our option, plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published prime rate or (iii) LIBOR plus 1.00%. As of June 30, 2014, the interest rate was 3.15%. The term loan is secured by certain assets and cash flows of the subsidiary and is non-recourse to our other assets or cash flows. The term loan matures on May 23, 2016. Through June 30, 2014, we had borrowed an aggregate of \$8.5 million under the term loan. Of the amount borrowed, \$8.2 million, net of fees, were outstanding as of June 30, 2014, all of which are included in the condensed consolidated balance sheets under long-term debt, net of current portion. We were in compliance with all debt covenants as of June 30, 2014.

In July 2014, we paid \$10.0 million to settle a working capital financing facility.

Solar Asset-backed Notes:

In April 2014, we pooled and transferred qualifying solar energy systems and the associated customer contracts into a special purpose entity, or SPE, and issued \$70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to certain investors. The Solar Asset-backed Notes bear interest at a fixed rate of 4.59% per annum and have a final maturity date of April 20, 2044. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to one of our subsidiaries. The assets and cash flows generated by the qualifying solar energy systems are not available to our other creditors, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. We were in compliance with all Solar Asset-backed Note covenants as of June 30, 2014.

In July 2014, we issued \$201.5 million in aggregate principal of Solar Asset-backed Notes through a SPE that is wholly owned by us. The Solar Asset-backed Notes were issued in two classes, with the senior class having an aggregate principal amount of \$160.0 million and bearing interest at a fixed rate of 4.02% per annum while the junior class had an aggregate principal amount of \$41.5 million and a fixed interest rate of 5.44% per annum. The Solar Asset-backed Notes have a final maturity date of July 20, 2044. The cash flows generated by the assets in the SPE will be used to service the monthly principal and interest payments on the Solar Asset-backed Notes. The SPE's assets and cash flows will not be available to our other creditors, and the creditors of the SPE, including the Solar Asset-backed Note holders, will have no recourse to our other assets.

Financing Fund Commitments:

In January 2014, the contractual terms of an existing financing fund were amended to increase the total available financing from the fund investor by \$40.0 million to \$80.0 million. In February 2014, one of our subsidiaries entered into a new lease pass-through financing arrangement with an existing fund investor. The total available financing under the lease pass-through financing arrangement is \$100.0 million. In April and May 2014, we formed three new financing funds, one with a new fund investor and two with existing fund investors, to provide aggregate available financing of up to \$240.0 million from the fund investors. In July 2014, we formed a new financing fund with an existing fund investor to provide available financing of up to \$20.0 million from the fund investor.

Off-Balance Sheet Arrangements

We include in our condensed consolidated financial statements all assets, liabilities and results of operations of the financing fund arrangements that we have entered into. We have not entered into any other transactions that have resulted in unconsolidated entities, partnerships or SPEs. Accordingly, we do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations. Our primary exposures include changes in interest rates because certain borrowings bear interest at floating rates based on LIBOR plus a specified margin. Historically, we

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have managed our interest rate risk by balancing our amount of fixed-rate and floating-rate debt. For fixed-rate debt, interest rate changes do not affect our earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant. Pursuant to our risk management policies, we may also make use of derivative instruments to manage our short-term exposures to fluctuations in interest rates. We do not enter into any derivative instrument transactions for trading or speculative purposes.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and operating expenses and reducing our funds available for capital investments, operations or other purposes. In addition, we must use a substantial portion of our cash inflows to service our borrowings, which may affect our ability to make acquisitions or capital expenditures. A hypothetical 10% change in our interest rates would have increased our interest expense by \$0.5 million and \$0.2 million for the six months ended June 30, 2014 and 2013, respectively.

ITEM 4. CONTROLS AND PROCEDURES***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014 pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act). The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2014, except for the impact of material weaknesses in our internal control over financial reporting, as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. Management commenced a process of developing, adopting and implementing new policies and procedures to address these material weaknesses beginning in the first quarter of 2014.

Although we believe that the remediation efforts implemented to date and other additional changes to our internal controls will improve our internal control over financial reporting and other disclosure controls and procedures, additional time is required to further design, fully implement and test the remediation efforts to demonstrate that these remediation efforts result in the effective operation of our internal controls. Management, with oversight from the Audit Committee, is committed to the remediation of known material weaknesses as expeditiously as possible.

Previously Reported Material Weakness

Our management concluded that our internal control over financial reporting and our disclosure controls and procedures were ineffective as of December 31, 2013 as a result of four material weaknesses we identified in our internal control over financial reporting relating to (i) the costing of our solar system installations, (ii) accounting for and classification of redeemable noncontrolling interests, (iii) segregation of incompatible duties at our lease administrator and our controls over the data received from our administrator, and (iv) certain areas of our financial

statement close process. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

In response to the material weaknesses described above, during the three months ended June 30, 2014, we began implementing and evaluating new controls and procedures. Though management is still evaluating the design of these new procedures, we believe that our improved processes and procedures will assist in the remediation of our material weaknesses. Once placed in operation for a sufficient period of time, we will subject these procedures to appropriate tests, in order to determine whether they are operating effectively. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

With the oversight of senior management and our audit committee, we have continued to remediate the underlying causes of the material weaknesses. Other than with respect to the ongoing plan for remediation of the material weaknesses, there has been no change to our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

On August 17, 2012, Kevin Demattio, a former outside sales employee, filed a putative class action complaint against the Company in the Superior Court of California for the County of Los Angeles. Mr. Demattio purports to represent a class of certain current and former outside sales representatives, and those with a similar title, who worked for the Company in California for the four-year period prior to the filing of the complaint. The complaint alleges causes of action for failure to pay proper wages due under various commission pay plans; failure to properly pay the wages of terminated (or resigned) employees; failure to provide proper itemized wage statements because of an alleged failure to specify requisite information; failure to keep accurate time records; and related claims for unfair competition and a California state statute permitting individuals to pursue claims not pursued by a state agency. Mr. Demattio seeks unspecified damages for himself and affected class members, including all wages due and owing, applicable statutory penalties (including waiting time penalties), interest, attorneys' fees and costs. On January 24, 2013, the Company answered the complaint and asserted a cross complaint against Mr. Demattio to recover commissions that he was paid, but not entitled to, along with the Company's fees and costs in the litigation. On July 15, 2014, the Superior Court denied Mr. DeMattio's motion to certify a class of similarly situated plaintiffs, and denied Mr. DeMattio's application to act as the class representative. The Company intends to defend itself against the individual complaint and pursue its own claims vigorously.

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and two of its officers. The complaint alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of our securities from March 6, 2013 to March 18, 2014. The Company believes that the claims against it are without merit and intends to defend the litigation vigorously. The Company has not recognized any liability as a result of this matter. On June 5 and June 11, 2014, derivative stockholder actions were filed in San Mateo Superior Court of California, purportedly on behalf of the Company and against members of its board of directors, alleging that the board members breached their duties to the Company by failing to prevent the conduct alleged in the purported stockholder class action pending in the United States District Court for the Northern District of California. The Company believes that the claims against it are without merit and intends to defend the litigation vigorously.

From time to time, we may be involved in various legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement, commercial, employment, business practices and other claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand. See Note 15 to the Consolidated Financial Statements, Commitments and Contingencies, of this quarterly report on Form 10-Q as well as Part I, Item 3 of our annual report on Form 10-K for the year ended December 31, 2013 for a description of certain pending proceedings which did not materially change during the quarter ended June 30, 2014.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors set forth below, together with the other information contained in this quarterly report on Form 10-Q, including our condensed consolidated financial statements and related notes, before investing in our common stock. Any of the following risks and additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition, results or operations. In such case, you may lose all or part of your original investment.

Risks Related to our Operations

Existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our solar energy systems.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter potential customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our customers' cost to use our systems and make our product offerings less desirable, thereby harming our business, prospects, financial condition and results of operations. In addition, depending on the region, electricity generated by solar energy systems competes most effectively with expensive peak-hour electricity from the electric grid, rather than the less expensive average price of electricity. Modifications to the utilities' peak hour pricing policies or rate design, such as to a flat rate, would require us to lower the price of our solar energy systems to compete with the price of electricity from the electric grid.

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In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services. For example, certain jurisdictions have proposed assessing fees on customers purchasing energy from solar energy systems or imposing a new charge that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. Any similar government or utility policies adopted in the future could reduce demand for our products and services and adversely impact our growth.

We rely on net metering and related policies to offer competitive pricing to our customers in some of our key markets.

Forty-three states and Washington, D.C. have a regulatory policy known as net energy metering, or net metering. Each of the states where we currently serve customers has adopted a net metering policy except for Texas, where certain individual utilities have adopted net metering or a policy similar to net metering. Net metering typically allows our customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system that is exported to the grid in excess of electric load used by the customers. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Utilities operating in states without a net metering policy may receive solar electricity that is exported to the grid at times when there is no simultaneous energy demand by the customer to utilize the generation onsite without providing retail compensation to the customer for this generation.

Our ability to sell solar energy systems or the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering in states that have implemented it, the failure to adopt a net metering policy where it currently is not in place or the imposition of new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the electricity they generate also may be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

Limits on net metering, interconnection of solar energy systems and other operational policies in key markets could limit the number of solar energy systems installed there. For example, California utilities limit net metering credit to 5% of the utilities' aggregate customer peak demand. California has adopted legislation to establish a process and timeline for developing a new net metering program with no cap on participation. If the net metering caps in California and other jurisdictions are reached, or if the amount of credit that customers receive for net metering is significantly reduced, future customers will be unable to recognize the current cost savings associated with net metering. We substantially rely on net metering when we establish competitive pricing for our prospective customers, and absence of net metering for new customers would greatly limit demand for our solar energy systems.

Our business currently depends on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our business.

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to lower our cost of capital and to incentivize investors to invest in our funds. These incentives enable us to lower the price we charge customers for energy and for our solar energy systems. However, these incentives may expire on a

particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. These reductions or terminations often occur without warning.

The federal government currently offers a 30% investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. This credit is due to adjust to 10% in 2017. Solar energy systems that began construction prior to the end of 2011 were eligible to receive a 30% federal cash grant paid by the U.S. Treasury Department under Section 1603 of the American Recovery and Reinvestment Act of 2009, or the U.S. Treasury grant, in lieu of the Federal ITC. Pursuant to the Budget Control Act of 2011, U.S. Treasury grants are subject to sequestration beginning in 2013. Specifically, U.S. Treasury grants made on or after October 1, 2013 through September 30, 2014 will be reduced by 7.2%, regardless of when the U.S. Treasury received the application. As a result, for all applications pending or submitted prior to June 30, 2014, we expect to suffer grant shortfalls of approximately \$1.3 million associated with our financing funds. Applicable authorities may adjust or decrease incentives from time to time or include provisions for minimum domestic content requirements or other requirements to qualify for these incentives.

Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our results of operations and ability to compete in our industry by increasing our cost of capital, causing us to increase the prices of our energy and solar energy systems, and reducing the size of our addressable market. In addition, this would adversely impact our ability to attract investment partners and to form new financing funds and our ability to offer attractive financing to prospective customers. For the quarter ended June 30, 2014, approximately 99.2% of new customers chose to enter into financed lease or power purchase agreements rather than buying a solar energy system for cash.

Table of Contents***Our business depends in part on the regulatory treatment of third-party owned solar energy systems.***

Our leases and power purchase agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives, and whether third-party owned systems are eligible for net metering and the associated significant cost savings. Reductions in, or eliminations of, this treatment of these third-party arrangements could reduce demand for our systems, adversely impact our access to capital and could cause us to increase the price we charge our customers for energy.

The Office of the Inspector General of the U.S. Department of Treasury has issued subpoenas to a number of significant participants in the rooftop solar energy installation industry, including us. The subpoena we received requires us to deliver certain documents in our possession relating to our participation in the U.S. Treasury grant program. These documents are being delivered to the Office of the Inspector General of the U.S. Department of Treasury, which is investigating the administration and implementation of the U.S. Treasury grant program.

In July 2012, we and other companies that are significant participants in both the solar industry and the cash grant program under Section 1603 of the American Recovery and Reinvestment Act of 2009 received subpoenas from the U.S. Department of Treasury's Office of the Inspector General to deliver certain documents in our respective possession. In particular, our subpoena requested, among other things, documents dated, created, revised or referred to since January 1, 2007 that relate to our applications for U.S. Treasury grants or communications with certain other solar development companies or certain firms that appraise solar energy property for U.S. Treasury grant application purposes. The Inspector General is working with the Civil Division of the U.S. Department of Justice to investigate the administration and implementation of the U.S. Treasury grant program, including possible misrepresentations concerning the fair market value of the solar power systems submitted for grant under that program made in grant applications by companies in the solar industry, including us. We intend to cooperate fully with the Inspector General and the Department of Justice. We are continuing to produce documents and testimony as requested by the Inspector General and we anticipate at least three months will be required to complete the gathering and production of such information, and that the Inspector General will require at least another six to nine months to conclude its review. If at the conclusion of the investigation the Inspector General concludes that misrepresentations were made, the Department of Justice could decide to bring a civil action to recover amounts it believes were improperly paid to us. If it were successful in asserting this action, we could then be required to pay damages and penalties for any funds received based on such misrepresentations (which, in turn, could require us to make indemnity payments to certain of our fund investors). Such consequences could have a material adverse effect on our business, liquidity, financial condition and prospects. Additionally, the period of time necessary to resolve the investigation is uncertain, and this matter could require significant management and financial resources that could otherwise be devoted to the operation of our business.

If the Internal Revenue Service or the U.S. Treasury Department makes additional determinations that the fair market value of our solar energy systems is materially lower than what we have claimed, we may have to pay significant amounts to our financing funds or to our fund investors and such determinations could have a material adverse effect on our business, financial condition and prospects.

We and our fund investors claim the Federal ITC or the U.S. Treasury grant in amounts based on the fair market value of our solar energy systems. We have obtained independent appraisals to support the fair market values we report for claiming Federal ITCs and U.S. Treasury grants. The Internal Revenue Service and the U.S. Treasury Department review these fair market values. With respect to U.S. Treasury grants, the U.S. Treasury Department reviews the reported fair market value in determining the amount initially awarded, and the Internal Revenue Service and the U.S.

Treasury Department may also subsequently audit the fair market value and determine that amounts previously awarded must be repaid to the U.S. Treasury Department or that excess awards constitute taxable income for U.S. federal income tax purposes. Such audits of a small number of our financing funds are ongoing. With respect to Federal ITCs, the Internal Revenue Service may review the fair market value on audit and determine that the tax credits previously claimed must be reduced. If the fair market value is determined in these circumstances to be less than we reported, we may owe our financing fund or our fund investors an amount equal to this difference, plus any costs and expenses associated with a challenge to that valuation. We could also be subject to tax liabilities, including interest and penalties.

The U.S. Treasury Department has previously determined in some instances to award U.S. Treasury grants for our solar energy systems at a materially lower value than we had established in our appraisals and, as a result, we have been required to pay our fund investors a true-up payment or contribute additional assets to the associated financing funds. It is possible that the U.S. Treasury Department will make similar determinations in the future. In response to such shortfalls, two of our financing funds filed a lawsuit in the United States Court of Federal Claims to recover the difference between the U.S. Treasury grants they sought and the amounts the U.S. Treasury paid; to the extent that these lawsuits are successful, any recovery would be used to repay us for amounts we previously reimbursed those funds. Our fund investors are contributing to our financing funds at the amounts the U.S. Treasury Department has most recently awarded on similarly situated energy systems to reduce or eliminate the need for us to subsequently pay those fund investors true-up payments or contribute additional assets to the associated financing funds.

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If the Internal Revenue Service or the U.S. Treasury Department further disagrees now or in the future, as a result of any pending or future audit, the outcome of the Department of Treasury Inspector General investigation, the change in guidelines or otherwise, with the fair market value of more of our solar energy systems that we have constructed or that we construct in the future, including any systems for which grants have already been paid, and determines we have claimed too high of a fair market value, it could have a material adverse effect on our business, financial condition and prospects. For example, a hypothetical five percent downward adjustment in the fair market value in the approximately \$501.2 million of U.S. Department of Treasury grant applications that have been awarded from the beginning of the U.S. Treasury grant program through June 30, 2014 would obligate us to repay approximately \$25.1 million to our fund investors.

We have historically benefited from the declining cost of solar panels, and our business and financial results may be harmed as a result of increases in the cost of solar panels or tariffs on imported solar panels imposed by the U.S. government.

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the pricing of our solar energy systems and customer adoption of this form of renewable energy. With the stabilization of solar panel and raw materials prices, our growth could slow, and our financial results could suffer. Further, the cost of solar panels and raw materials could increase in the future due to tariff penalties or other factors.

The U.S. government has imposed tariffs on solar cells manufactured in China. Based on determinations by the U.S. government, the most recent applicable anti-dumping and countervailing tariff rates range from approximately 33%-255%. Such anti-dumping and countervailing tariffs are subject to annual review and may be increased. These tariffs have increased the price of solar panels containing Chinese-manufactured solar cells. In the past, we purchased a significant portion of the solar panels used in our solar energy systems from manufacturers based in China. Currently, many of the solar panels we purchase contain components from China or Taiwan. The purchase price of solar panels containing solar cells manufactured in China reflects these tariff penalties. While solar panels containing solar cells manufactured outside of China are not subject to these tariffs, the prices of these solar panels are, and may continue to be, more expensive than panels produced using Chinese solar cells, before giving effect to the tariff penalties.

In addition, the U.S. government has new trade investigations relating to certain components exported from China and Taiwan. In early June 2014, the U.S. government announced its affirmative preliminary determination in the countervailing duty case and in July 2014, the government announced affirmative preliminary determinations in the antidumping cases against both China and Taiwan. As a result, cash deposits are now required from importers of record based on these preliminary rates and pricing of affected solar photovoltaic panel components has increased. The new preliminary tariffs do not apply to modules with Chinese solar cells. Those modules are still covered by the existing tariffs from the first trade case. Final determinations in the new trade case are expected before the end of the year.

If additional tariffs are imposed or other negotiated outcomes occur, our ability to purchase these products on competitive terms or to access specialized technologies from those countries could be limited. Any of those events could harm our financial results by requiring us to pay trade penalties or to purchase solar panels or other system components from alternative, higher-priced sources.

In June 2014, we announced our proposed acquisition of Silevo, Inc., a solar panel technology and manufacturing company. While we believe that panels manufactured by our company following our proposed acquisition of Silevo would be exempt from these tariffs, as proposed, the acquisition of Silevo may not be completed, and even if it were to be completed, we expect to rely on solar panels produced by our existing suppliers for the near future. In addition, it

is possible that system components purchased from foreign suppliers could be the subject of these or future trade cases.

Our ability to provide solar energy systems to customers on an economically viable basis depends on our ability to finance these systems with fund investors who require particular tax and other benefits.

Our solar energy systems have been eligible for Federal ITCs or U.S. Treasury grants, as well as depreciation benefits. We have relied on, and will continue to rely on, financing structures that monetize a substantial portion of those benefits and provide financing for our solar energy systems. With the lapse of the U.S. Treasury grant program, we anticipate that our reliance on these tax-advantaged financing structures will increase substantially. If, for any reason, we were unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain solar energy systems for new customers on an economically viable basis.

The availability of this tax-advantaged financing depends upon many factors, including:

our ability to compete with other renewable energy companies for the limited number of potential fund investors, each of which has limited funds and limited appetite for the tax benefits associated with these financings;

the state of financial and credit markets;

changes in the legal or tax risks associated with these financings; and

non-renewal of these incentives or decreases in the associated benefits.

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Under current law, the Federal ITC will be reduced from approximately 30% of the cost of the solar energy systems to approximately 10% for solar energy systems placed in service after December 31, 2016. In addition, U.S. Treasury grants are no longer available for new solar energy systems. Moreover, potential fund investors must remain satisfied that the structures we offer make the tax benefits associated with solar energy systems available to these investors, which depends both on the investors' assessment of the tax law and the absence of any unfavorable interpretations of that law. Changes in existing law and interpretations by the Internal Revenue Service and the courts could reduce the willingness of fund investors to invest in funds associated with these solar energy system investments. We cannot assure you that this type of financing will be available to us. If, for any reason, we are unable to finance solar energy systems through tax-advantaged structures or if we are unable to realize or monetize depreciation benefits, we may no longer be able to provide solar energy systems to new customers on an economically viable basis. This would have a material adverse effect on our business, financial condition and results of operations.

We need to enter into additional substantial financing arrangements to facilitate our customers' access to our solar energy systems, and if this financing is not available to us on acceptable terms, if and when needed, our ability to continue to grow our business would be materially adversely impacted.

Our future success depends on our ability to raise capital from third-party fund investors to help finance the deployment of our residential and commercial solar energy systems. In particular, our strategy is to seek to reduce the cost of capital through these arrangements to improve our margins or to offset future reductions in government incentives and to maintain the price competitiveness of our solar energy systems. If we are unable to establish new financing funds when needed, or upon desirable terms, to enable our customers' access to our solar energy systems with little or no upfront cost, we may be unable to finance installation of our customers' systems, or our cost of capital could increase, either of which would have a material adverse effect on our business, financial condition and results of operations. To date we have raised capital sufficient to finance installation of our customers' solar energy systems from a number of financial institutions and other large companies. The contract terms in certain of our financing fund documents condition our ability to draw on financing commitments from the fund investors, including if an event occurs that could reasonably be expected to have a material adverse effect on the fund or in one case on us. If we do not satisfy such condition due to events related to our business or a specific financing fund or developments in our industry (including related to the Department of Treasury Inspector General investigation) or otherwise, and as a result we are unable to draw on existing commitments, it could have a material adverse effect on our business, liquidity, financial condition and prospects. If any of the financial institutions or large companies that currently invest in our financing funds decide not to invest in future financing funds to finance our solar energy systems due to general market conditions, concerns about our business or prospects, the pendency of the Department of Treasury Inspector General investigation or any other reason, or materially change the terms under which they are willing to provide future financing, we will need to identify new financial institutions and companies to invest in our financing funds and negotiate new financing terms.

In the past, we encountered challenges raising new funds, which caused us to delay deployment of a substantial number of solar energy systems for which we had signed leases or power purchase agreements with customers. For example, in late 2008 and early 2009, as a result of the state of the capital markets, our ability to finance the installation of solar energy systems was limited and resulted in a significant backlog of signed sales orders for solar energy systems. Our future ability to obtain additional financing depends on banks' and other financing sources' continued confidence in our business model and the renewable energy industry as a whole. It could also be impacted by the liquidity needs of such financing sources themselves. If we experience higher customer default rates than we currently experience in our existing financing funds or if we lower the credit rating requirement for new customers, this could make it more difficult or costly to attract future financing. Solar energy has yet to achieve broad market acceptance and depends on continued support in the form of performance-based incentives, rebates, tax credits and other incentives from federal, state and foreign governments. If this support diminishes, our ability to obtain external

financing on acceptable terms, or at all, could be materially adversely affected. In addition, we face competition for these investor funds. If we are unable to continue to offer a competitive investment profile, we may lose access to these funds or they may only be available on less favorable terms than our competitors. Our current financing sources may be inadequate to support the anticipated growth in our business plans. Our inability to secure financing could lead to cancelled projects and could impair our ability to accept new projects and customers. In addition, our borrowing costs could increase, which would have a material adverse effect on our business, financial condition and results of operations.

A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business, financial condition and results of operations.

We believe that a customer's decision to buy renewable energy from us is primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources would harm our ability to offer competitive pricing and could harm our business. The price of electricity from utilities could decrease as a result of:

the construction of a significant number of new power generation plants, including nuclear, coal, natural gas or renewable energy technologies;

the construction of additional electric transmission and distribution lines;

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a reduction in the price of natural gas as a result of new drilling techniques or a relaxation of associated regulatory standards;

the energy conservation technologies and public initiatives to reduce electricity consumption; and

development of new renewable energy technologies that provide less expensive energy.

A reduction in utility electricity prices would make the purchase of our solar energy systems or the purchase of energy under our lease and power purchase agreements less economically attractive. In addition, a shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient could make our solar energy system offerings less competitive and reduce demand for our products and services. If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, we would be at a competitive disadvantage. As a result, we may be unable to attract new customers and our growth would be limited.

A material drop in the retail price of utility-generated electricity would particularly adversely impact our ability to attract commercial customers.

Commercial customers comprise a significant and growing portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for energy from utilities than residential customers. Because the price we are able to charge commercial customers is only slightly lower than their current retail rate, any decline in the retail rate of energy for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar energy systems for the commercial market that produce electricity at rates that are competitive with the price of retail electricity on a non-subsidized basis. If this were to occur, we would be at a competitive disadvantage to other energy providers and may be unable to attract new commercial customers, and our business would be harmed.

If we fail to remediate deficiencies in our control environment or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial and operating reporting and related disclosures may be adversely affected.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2013, we identified four material weaknesses in our internal control over financial reporting relating to (i) the costing of our solar system installations, (ii) accounting for and classification of redeemable noncontrolling interests, (iii) segregation of incompatible duties at our lease administrator and our controls over the data received from our administrator, and (iv) certain areas of our financial statement close process. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. These material weaknesses resulted from separate control deficiencies, as well as our misinterpretation of certain accounting standards, and resulted in the restatement of our consolidated financial statements as of and for the years ended December 31, 2012, 2011, 2010 and 2009 and for certain interim periods in 2012 and 2013.

In addition, we have previously identified material weaknesses in our internal control over financial reporting and inventory in 2010 and 2011. The accounting policies associated with our financing funds are complex, which contributed to the material weaknesses in our internal control over financial reporting, in particular those relating to the presentation of noncontrolling interests for related partnership fund structures. For our lease pass-through arrangements, we initially characterized funds received from investors as deferred revenue rather than financing obligations, which resulted in adjustments to our 2010 consolidated financial statements. For a particular

sale-leaseback transaction, we did not initially defer the correct amount of gain associated with this arrangement, which was corrected in our 2010 consolidated financial statements. The foregoing resulted in a prior restatement to our 2010 consolidated financial statements. In addition, deficiencies in the design and operation of our internal controls resulted in audit adjustments and delayed our financial statement close process for the years ended December 31, 2013, 2012, 2011 and 2010.

We are taking and have taken numerous steps to remediate these material weaknesses and improve our internal control over financial reporting. In connection with this quarterly report on Form 10-Q, our management has performed an evaluation of our internal control over financial reporting as of June 30, 2014 pursuant to Section 404 of the Sarbanes-Oxley Act, and has concluded that our internal control over financial reporting and our disclosure controls and procedures were effective as of June 30, 2014, except for the impact of material weaknesses in our internal control over financial reporting, as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. We began the process of developing, adopting and implementing new policies and procedures to address these material weaknesses beginning in the first quarter of 2014. Although we believe that our remediation efforts implemented to date and other additional changes to our internal controls will improve our internal control over financial reporting and other disclosure controls and procedures, additional time is required to further design, fully implement and test our remediation efforts to demonstrate that our remediation efforts result in the effective operation of our internal controls.

If in the future, we are not able to implement and maintain effective internal control over financial reporting and disclosure controls and procedures, or if additional material weaknesses are discovered in future periods, a risk that is significantly increased in light of the complexity of our business, we may be unable to accurately and timely report our financial position, results of operations, cash flows or key operating metrics, which could result in additional late filings of our annual and quarterly reports under the Exchange Act, additional restatements of our consolidated financial statements or other corrective disclosures, a decline in our stock price, suspension or delisting of our common stock by the NASDAQ Global Select Market, an inability to access the capital and commercial lending markets, defaults under our credit and other agreements, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

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Rising interest rates could adversely impact our business.

Changes in interest rates could have an adverse impact on our business by increasing our cost of capital. For example:

rising interest rates would increase our cost of capital; and

rising interest rates may negatively impact our ability to secure financing on favorable terms to facilitate our customers' purchase of our solar energy systems or energy generated by our solar energy systems. The majority of our cash flows to date have been from solar energy systems under lease and power purchase agreements that have been monetized under various financing fund structures. One of the components of this monetization is the present value of the payment streams from the customers who enter into these leases and power purchase agreements. If the rate of return required by the fund investor rises as a result of a rise in interest rates, it will reduce the present value of the customer payment stream and consequently reduce the total value derived from this monetization. Rising interest rates could harm our business and financial condition.

In our lease pass-through financing funds, there is a one-time reset of the lease payments, and we may be obligated, in connection with the resetting of the lease payments at true up, to refund lease prepayments or to contribute additional assets to the extent the system sizes, costs, and timing are not consistent with the initial lease payment model.

In our lease pass-through financing funds, the models used to calculate the lease prepayments will be updated for each fund at a fixed date occurring after placement in service of all solar systems or an agreed upon date (typically within the first year of the applicable lease term) to reflect certain specified conditions as they exist at such date, including the ultimate system size of the equipment that was leased, how much it cost, and when it went into service. As a result of this true up, the lease payments are resized and we may be obligated to refund the investor's lease prepayments or to contribute additional assets to the fund. Any significant refunds or capital contributions that we may be required to make could adversely affect our financial condition.

We are not currently regulated as a utility under applicable law, but we may be subject to regulation as a utility in the future.

Federal law and most state laws do not currently regulate us as a utility. As a result, we are not subject to the various federal and state standards, restrictions and regulatory requirements applicable to U.S. utilities. In the United States, we obtain federal and state regulatory exemptions by establishing Qualifying Facility status with the Federal Energy Regulatory Commission for all of our qualifying solar energy projects. In Canada, we also are generally subject to the regulations of the relevant energy regulatory agencies applicable to all producers of electricity under the relevant feed-in tariff regulations (including the feed-in tariff rates), however we are not currently subject to regulation as a utility. Our business strategy includes the continued development of larger solar energy systems in the future for our commercial and government customers, which has the potential to impact our regulatory position. Any local, state, federal or foreign regulations could place significant restrictions on our ability to operate our business and execute our business plan by prohibiting or otherwise restricting our sale of electricity. If we were subject to the same state, federal or foreign regulatory authorities as utilities in the United States or if new regulatory bodies were established to oversee our business in the United States or in foreign markets, then our operating costs would materially increase.

We may not realize the anticipated benefits of past or future acquisitions, and integration of these acquisitions may disrupt our business and management and cause dilution to our stockholders.

In June 2014, we announced that we had entered into a definitive agreement to acquire Silevo, Inc., a solar panel technology and manufacturing company. In 2013, we acquired Zep Solar, Common Assets, certain assets of Paramount Solar, and completed various other smaller acquisitions. In the future we may acquire additional companies, project pipelines, products, or technologies, including additional photovoltaics companies, or enter into joint ventures or other strategic initiatives. Our ability as an organization to integrate acquisitions is unproven. We may not realize the anticipated benefits of our acquisitions or any other future acquisition, or the acquisition may be viewed negatively by customers, financial markets or investors.

Any acquisition has numerous risks, these risks include the following, among others:

difficulty in assimilating the operations and personnel of the acquired company;

difficulty in effectively integrating the acquired technologies or products with our current products and technologies;

difficulty in maintaining controls, procedures, and policies during the transition and integration;

disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;

difficulty integrating the acquired company's accounting, management information, and other administrative systems;

inability to retain key technical and managerial personnel of the acquired business;

inability to retain key customers, vendors, and other business partners of the acquired business;

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inability to achieve the financial and strategic goals for the acquired and combined businesses;

incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;

potential failure of the due diligence processes to identify significant issues with product quality, legal and financial liabilities, among other things;

potential inability to assert that internal controls over financial reporting are effective; and

potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

Additional risks related to our proposed acquisition of Silevo, Inc., expected to close in the third quarter of 2014, include the following:

the inability to successfully operate new lines of business in which our management team and personnel may have little prior experience;

the inability to successfully scale the acquired manufacturing output to substantially higher levels while achieving projected cost reductions;

the inability to obtain and maintain government partnerships and incentives and substantial additional funds to build state-of-the-art manufacturing facilities and achieve the other anticipated benefits of the acquisitions;

potential liquidity risks involved in increasing our capital expenses while reducing cash available for operations, servicing our existing indebtedness, complying with liquidity covenants and other uses;

our ability to successfully compete with other manufacturers, particularly those competitors with significantly greater experience in managing manufacturing operations, greater capital resources, numerous patent and other intellectual property protections, and support from foreign governments;

our relationships with key vendors, business partners, and other entities associated with the acquired business, including risks related to their solvency and creditworthiness;

any lack of availability or increased pricing of key components and materials, such as polysilicon and wafers;

the inability to maintain partnerships and relationships with the People's Republic of China, including managing joint ventures with state-affiliated partners;

our inability to hire a sufficient number of skilled manufacturing personnel and to maintain good work relations with employees, including the effect of any work stoppages or liabilities associated with labor union activity;

potential additional exposure to fluctuations in currency exchange rates; and

assumption of liabilities including, but not limited to, lawsuits, tax examinations, product warranty liabilities, environmental liabilities, and liabilities associated with compliance with laws, in particular anti-bribery and anti-corruption laws such as the U.S. Foreign Corrupt Practices Act.

In connection with our acquisitions of Zep Solar and Paramount Solar, we issued approximately 6.5 million shares of our common stock. As consideration for our proposed acquisition of Silevo, and assuming the timely achievement of all earnout related milestones, we may issue additional common stock with an aggregate value of up to \$350 million. In addition, we typically offer additional equity compensation to continuing employees of these businesses. If we are unable to successfully integrate these businesses and technologies or are unable to otherwise achieve the anticipated benefits of these acquisitions, the related issuances of our securities may be highly dilutive to our existing stockholders.

A failure to hire and retain a sufficient number of employees in key functions would constrain our growth and our ability to timely complete our customers' projects.

To support our growth, we need to hire, train, deploy, manage and retain a substantial number of skilled employees. In particular, we need to continue to expand and optimize our sales infrastructure to grow our customer base and our business, and we plan to expand our direct sales force. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take several months before a new salesperson is fully trained and productive. If we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of this investment or grow our business.

To complete current and future customer projects and to continue to grow our customer base, we need to hire a large number of installers in the relevant markets. Competition for qualified personnel in our industry is increasing, particularly for skilled installers and other personnel involved in the installation of solar energy systems. We also compete with the homebuilding and construction industries for skilled labor. As these industries recover and seek to hire additional workers, our cost of labor may increase. The

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unionization of our labor force could also increase our labor costs. Shortages of skilled labor could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project. In addition, because we are headquartered in the San Francisco Bay Area, we compete for a limited pool of technical and engineering resources that requires us to pay wages that are competitive with relatively high regional standards for employees in these fields.

If we cannot meet our hiring, retention and efficiency goals, we may be unable to complete our customers' projects on time, in an acceptable manner or at all. Any significant failures in this regard would materially impair our growth, reputation, business and financial results. If we are required to pay higher compensation than we anticipate, these greater expenses may also adversely impact our financial results and the growth of our business.

We have guaranteed a minimum return to be received by an investor in one of our financing funds and could be adversely affected if we are required to make any payments under this guarantee.

We have guaranteed payments to the investor in one of our financing funds to compensate for payments that the investor would be required to make to a certain third party as a result of the investor not achieving a specified minimum internal rate of return in this fund, assessed annually. The amounts of potential future payments under this guarantee depend on the amounts and timing of future distributions to the investor from the funds and the tax benefits that accrue to the investor from the fund's activities. Because of uncertainties associated with estimating the timing and amounts of distributions to the investor, we cannot determine the potential maximum future payments that we could have to make under this guarantee. We may agree to similar terms in the future if market conditions require it. Any significant payments that we may be required to make under our guarantees could adversely affect our financial condition.

It is difficult to evaluate our business and prospects due to our limited operating history.

Since our formation in 2006, we have focused our efforts primarily on the sales, financing, engineering, installation and monitoring of solar energy systems for residential, commercial and government customers. We launched our pilot commercial and residential energy storage products and services in late-2013, and revenue attributable to this line of business has not been material compared to revenue attributable to our solar energy systems. We may be unsuccessful in significantly broadening our customer base through installation of solar energy systems within our current markets or in new markets we may enter. Additionally, we cannot assure you that we will be successful in generating substantial revenue from our current energy-related products and services or from any additional products and services we may introduce in the future. Our limited operating history, combined with the rapidly evolving and competitive nature of our industry, may not provide an adequate basis for you to evaluate our operating and financing results and business prospects. In addition, we only have limited insight into emerging trends that may adversely impact our business, prospects and operating results. As a result, our limited operating history may impair our ability to accurately forecast our future performance.

We have incurred losses and may be unable to achieve or sustain profitability in the future.

We have incurred net losses in the past, and we had an accumulated deficit of \$274.0 million as of June 30, 2014. We may incur net losses from operations as we increase our spending to finance the expansion of our operations, expand our installation, engineering, administrative, sales and marketing staffs, and implement internal systems and infrastructure to support our growth. We do not know whether our revenue will grow rapidly enough to absorb these costs, and our limited operating history makes it difficult to assess the extent of these expenses or their impact on our operating results. Our ability to achieve profitability depends on a number of factors, including:

growing our customer base;

finding investors willing to invest in our financing funds;

maintaining and further lowering our cost of capital;

reducing the cost of components for our solar energy systems; and

reducing our operating costs by optimizing our design and installation processes and supply chain logistics. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future.

We face competition from both traditional energy companies and renewable energy companies.

The solar energy and renewable energy industries are both highly competitive and continually evolving as participants strive to distinguish themselves within their markets and compete with large utilities. We believe that our primary competitors are the traditional utilities that supply energy to our potential customers. We compete with these utilities primarily based on price,

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predictability of price, and the ease by which customers can switch to electricity generated by our solar energy systems. If we cannot offer compelling value to our customers based on these factors, then our business will not grow. Utilities generally have substantially greater financial, technical, operational and other resources than we do. As a result of their greater size, these competitors may be able to devote more resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. Utilities could also offer other value-added products or services that could help them to compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity is non-solar, which may allow utilities to sell electricity more cheaply than electricity generated by our solar energy systems.

We also compete with solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations which then subcontract out the installation of solar energy systems, from installation businesses that seek financing from external parties, from large construction companies and utilities, and increasingly from sophisticated electrical and roofing companies. Some of these competitors specialize in either the residential or commercial solar energy markets, and some may provide energy at lower costs than we do. Many of our competitors also have significant brand name recognition and have extensive knowledge of our target markets. Competitors have increasingly begun vertically integrating their operations to offer comprehensive products and services offerings similar to ours. For us to remain competitive, we must distinguish ourselves from our competitors by offering an integrated approach that successfully competes with each level of products and services offered by our competitors at various points in the value chain. As more of our competitors develop an integrated approach similar to ours, our marketplace differentiation may suffer.

We also face competition in the energy-related products and services markets and we expect to face competition in additional markets as we introduce new products and services. As the solar industry grows and evolves, we will also face new competitors who are not currently in the market. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors will limit our growth and will have a material adverse effect on our business and prospects.

Projects for our significant commercial or government customers involve concentrated project risks that may cause significant changes in our financial results.

During any given financial reporting period, we typically have ongoing significant projects for commercial and governmental customers that represent a significant portion of our potential financial results for such period. For example, Walmart is a significant customer for which we have installed a substantial number of solar energy systems. In November 2011, we announced SolarStrong, our five-year plan to build more than \$1 billion in solar energy projects for privatized U.S. military housing communities across the country that we anticipate will involve a significant investment in resources and project management over time and will require additional financing funds to support the project. These larger projects create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially impact our quarterly or annual financial results. In addition, if construction, warranty or operational issues arise on a larger project, or if the timing of such projects unexpectedly shifts for other reasons, such issues could have a material impact on our financial results. If we are unable to successfully manage these significant projects in multiple markets, including our related internal processes and external construction management, or if we are unable to continue to attract such significant customers and projects in the future, our financial results would be harmed.

We depend on a limited number of suppliers of solar panels and other system components to adequately meet anticipated demand for our solar energy systems. Any shortage, delay or component price change from these suppliers could result in sales and installation delays, cancellations and loss of market share.

We purchase solar panels, inverters and other system components from a limited number of suppliers, making us susceptible to quality issues, shortages and price changes. If we fail to develop, maintain and expand our relationships with these or other suppliers, we may be unable to adequately meet anticipated demand for our solar energy systems, or we may only be able to offer our systems at higher costs or after delays. If one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production, we may be unable to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and we may be unable to satisfy this demand. In particular, there are a limited number of inverter suppliers. Once we design a system for use with a particular inverter, if that type of inverter is not readily available at an anticipated price, we may incur additional delay and expense to redesign the system. There have also been periods of industry-wide shortage of key components, including solar panels, in times of rapid industry growth. The manufacturing infrastructure for some of these components has a long lead time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. Any decline in the exchange rate of the U.S. dollar compared to the functional currency of our component suppliers could increase our component prices. Any of these shortages, delays or price changes could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand.

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Our operating results may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our operating results for a particular period to fall below expectations, resulting in a severe decline in the price of our common stock.

Our quarterly operating results are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past. However, given that we are an early-stage company operating in a rapidly growing industry, those fluctuations may be masked by our recent growth rates and thus may not be readily apparent from our historical operating results. As such, our past quarterly operating results may not be good indicators of future performance.

In addition to the other risks described in this Risk Factors section, the following factors could cause our operating results to fluctuate:

the expiration or initiation of any rebates or incentives;

significant fluctuations in customer demand for our products and services;

our ability to complete installations in a timely manner due to market conditions resulting in inconsistently available financing;

our ability to continue to expand our operations, and the amount and timing of expenditures related to this expansion;

actual or anticipated changes in our growth rate relative to our competitors;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;

changes in our pricing policies or terms or those of our competitors, including utilities; and

actual or anticipated developments in our competitors' businesses or the competitive landscape.

For these or other reasons, the results of any prior quarterly or annual periods should not be relied upon as indications of our future performance. In addition, our actual revenue, key operating metrics and other operating results in future quarters may fall short of the expectations of investors and financial analysts, which could have a severe adverse effect on the trading price of our common stock.

We act as the licensed general contractor for our customers and are subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a material adverse effect on our business and results of operations.

We are a licensed contractor or use licensed subcontractors in every community we service, and we are responsible for every customer installation. For our residential projects, we are the general contractor, construction manager and installer. For our commercial projects, we are the general contractor and construction manager, and we typically rely on licensed subcontractors to install these commercial systems. We may be liable to customers for any damage we cause to their home or facility, belongings or property during the installation of our systems. For example, we frequently penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of construction. In addition, shortages of skilled subcontractor labor for our commercial projects could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project.

In addition, the installation of solar energy systems, energy-storage systems and other energy-related products requiring building modifications are subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering, and related matters. It is difficult and costly to track the requirements of every individual authority having jurisdiction over our installations and to design solar energy systems to comply with these varying standards. Any new government regulations or utility policies pertaining to our systems may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our systems.

Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems. The evaluation and installation of our energy-related products requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. We also maintain a fleet of more than 1,000 vehicles that our employees use in the course of their work. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, and equivalent state laws. Changes to OSHA requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we

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may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures, or suspend or limit operations. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines and operational delays for certain projects. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

Problems with product quality or performance may cause us to incur warranty expenses and performance guarantee expenses, may lower the residual value of our solar energy systems and may damage our market reputation and cause our financial results to decline.

Our solar energy system warranties are lengthy. Customers who buy energy from us under leases or power purchase agreements are covered by warranties equal to the length of the term of these agreements typically 20 years. Depending on the state where they live, customers who purchase our solar energy systems for cash are covered by a warranty up to 10 years in duration. We also make extended warranties available at an additional cost to customers who purchase our solar energy systems for cash. In addition, we provide a pass-through of the inverter and panel manufacturers warranties to our customers, which generally range from 5 to 25 years. One of these third-party manufacturers could cease operations and no longer honor these warranties, instead leaving us to fulfill these potential obligations to our customers. For example, Evergreen Solar, Inc., one of our former solar panel suppliers, filed for bankruptcy in August 2011. Further, we provide a performance guarantee with our leased solar energy systems that compensates a customer on an annual basis if their system does not meet the electricity production guarantees set forth in their lease.

Because of the limited operating history of our solar energy systems, we have been required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of our solar energy systems. We have made these assumptions based on the historic performance of similar systems or on accelerated life cycle testing. Our assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial expense to repair or replace defective solar energy systems in the future or to compensate customers for systems that do not meet their production guarantees. Product failures or operational deficiencies also would reduce our revenue from power purchase agreements because they are dependent on system production. Any widespread product failures or operating deficiencies may damage our market reputation and adversely impact our financial results.

In addition, we amortize costs of our solar energy systems over 30 years, which typically exceeds the period of the component warranties and the corresponding payment streams from our operating lease arrangements with our customers. In addition, we typically bear the cost of removing the solar energy systems at the end of the lease term. Furthermore, it is difficult to predict how future environmental regulations may affect the costs associated with the removal, disposal or recycling of our solar energy systems. Consequently, if the residual value of the systems is less than we expect at the end of the lease, after giving effect to any associated removal and redeployment costs, we may be required to accelerate all or some of the remaining unamortized expenses. This could materially impair our future operating results.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

If one of our solar energy systems or other products injured someone we would be exposed to product liability claims. Because solar energy systems and many of our other current and anticipated products are electricity producing devices, it is possible that consumers could be injured by our products, whether by product malfunctions, defects, improper installation or other causes. We rely on our general liability insurance to cover product liability claims and have not obtained separate product liability insurance. Any product liability claim we face could be expensive to

defend and divert management's attention. The successful assertion of product liability claims against us could result in potentially significant monetary damages that could require us to make significant payments, as well as subject us to adverse publicity, damage our reputation and competitive position. Also, any product liability claims and any adverse outcomes may subject us to adverse publicity, damage our reputation and competitive position and adversely affect sales of our systems and other products.

Damage to our brand and reputation would harm our business and results of operations.

We depend significantly on our reputation for high-quality products and services, best-in-class engineering, exceptional customer service and the brand name SolarCity to attract new customers and grow our business. If we fail to continue to deliver our solar energy systems and our other energy products and services within the planned timelines, if our products and services do not perform as anticipated or if we damage any of our customers' properties or cancel projects, our brand and reputation could be significantly impaired. In addition, if we fail to deliver, or fail to continue to deliver, high-quality products and services to our customers through our long-term relationships, our customers will be less likely to purchase future products and services from us, which is a key strategy to achieve our desired growth. We also depend greatly on referrals from existing customers for our growth, in addition to our other marketing efforts. Therefore, our inability to meet or exceed our current customers' expectations would harm our reputation and growth through referrals.

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If we fail to manage our recent and future growth effectively, we may be unable to execute our business plan, maintain high levels of customer service or adequately address competitive challenges.

We have experienced significant growth in recent periods, and we intend to continue to expand our business significantly within existing markets and in a number of new locations in the future. This growth has placed, and any future growth may place, a significant strain on our management, operational and financial infrastructure. In particular, we will be required to expand, train and manage our growing employee base. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third-parties and attract new customers and suppliers, as well as to manage multiple geographic locations.

In addition, our current and planned operations, personnel, systems and procedures might be inadequate to support our future growth and may require us to make additional unanticipated investment in our infrastructure. Our success and ability to further scale our business will depend, in part, on our ability to manage these changes in a cost-effective and efficient manner. If we cannot manage our growth, we may be unable to take advantage of market opportunities, execute our business strategies or respond to competitive pressures. This could also result in declines in quality or customer satisfaction, increased costs, difficulties in introducing new products and services or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

We may not be successful in leveraging our customer base to grow our business through sales of other energy products and services.

To date, we have derived substantially all of our revenue and cash receipts from the sale of solar energy systems and the sale of energy under our long-term customer agreements. While we continue to develop and offer innovative energy-related products and services, customer demand for these offerings may be more limited than we anticipate. We may not be successful in completing development of these products as a result of research and development difficulties, technical issues, availability of third-party products or other reasons. Even if we are able to offer these or other additional products and services, we may not successfully generate meaningful customer demand to make these offerings viable. If we fail to deliver these additional products and services, if the costs associated with bringing these additional products and services to market is greater than we anticipate, if customer demand for these offerings is smaller than we anticipate, or if our strategies to implement new sales approaches and acquire new customers are not successful, our growth will be limited.

Our growth depends in part on the success of our strategic relationships with third parties.

A key component of our growth strategy is to develop or expand our strategic relationships with third parties. For example, we are investing resources in establishing relationships with industry leaders, such as trusted retailers and commercial homebuilders, to generate new customers. Identifying partners and negotiating relationships with them requires significant time and resources. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to grow our business could be impaired. Even if we are able to establish these relationships, we may not be able to execute on our goal of leveraging these relationships to meaningfully expand our business and customer base. This would limit our growth potential and our opportunities to generate significant additional revenue or cash receipts.

The loss of one or more members of our senior management or key employees may adversely affect our ability to implement our strategy.

We depend on our experienced management team, and the loss of one or more key executives could have a negative impact on our business. In particular, we are dependent on the services of our chief executive officer and co-founder,

Lyndon R. Rive, and our chief technology officer and co-founder, Peter J. Rive. We also depend on our ability to retain and motivate key employees and attract qualified new employees. Neither our founders nor our key employees are bound by employment agreements for any specific term, and we may be unable to replace key members of our management team and key employees in the event we lose their services. Integrating new employees into our management team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to attract and retain sufficient managerial personnel who have critical industry experience and relationships could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition and results of operations.

Our business may be harmed if we fail to properly protect our intellectual property.

We believe that the success of our business depends in part on our proprietary technology, including our software, information, processes and know-how. We rely on trade secret and patent protections to secure our intellectual property rights. We cannot be certain that we have adequately protected or will be able to adequately protect our proprietary technology, that our competitors will not be able to utilize our existing technology or develop similar technology independently, that the claims allowed with respect to any patents held by us will be broad enough to protect our technology or that foreign intellectual property laws will adequately protect our intellectual property rights. Moreover, we cannot be certain that our patents provide us with a competitive advantage. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our consent. Unauthorized use of

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our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. In the future, some of our products could be alleged to infringe existing patents or other intellectual property of third parties, and we cannot be certain that we will prevail in any intellectual property dispute. In addition, any future litigation required to enforce our patents, to protect our trade secrets or know-how or to defend us or indemnify others against claimed infringement of the rights of others could harm our business, financial condition and results of operations.

We are subject to legal proceedings and regulatory inquiries, and we may be named in additional legal proceedings or become involved in regulatory inquiries in the future, all of which are costly, distracting to our core business and could result in an unfavorable outcome, or a material adverse effect on our business, financial condition, results of operations, or the trading price for our securities.

We are involved in legal proceedings and receive inquiries from government and regulatory agencies (such as the pending Treasury and Department of Labor investigations and other matters referenced in Part II, Item 1, Legal Proceedings). In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, we could be exposed to costly and time consuming legal proceedings that could result in any number of outcomes. Although outcomes of such actions vary, any claims or regulatory actions initiated by or against us, whether successful or not, could result in expensive costs of defense, costly damage awards, injunctive relief, increased costs of business, fines or orders to change certain business practices, significant dedication of management time, diversion of significant operational resources, or otherwise harm our business. In any of these cases, our financial results could be negatively impacted.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members and officers.

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the NASDAQ Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

As a public company, we also expect that it will be more expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our audit committee and compensation committee.

The production and installation of solar energy systems depends heavily on suitable meteorological conditions. If meteorological conditions are unexpectedly unfavorable, the electricity production from our solar energy systems may be substantially below our expectations and our ability to timely deploy new systems may be adversely impacted.

The energy produced and revenue and cash receipts generated by a solar energy system depend on suitable solar and weather conditions, both of which are beyond our control. Furthermore, components of our systems, such as panels and inverters, could be damaged by severe weather, such as hailstorms or tornadoes. In these circumstances, we generally would be obligated to bear the expense of repairing the damaged solar energy systems that we own. Sustained unfavorable weather also could unexpectedly delay our installation of solar energy systems, leading to increased expenses and decreased revenue and cash receipts in the relevant periods. Weather patterns could change, making it harder to predict the average annual amount of sunlight striking each location where we install. This could make our solar energy systems less economical overall or make individual systems less economical. Any of these events or conditions could harm our business, financial condition and results of operations.

We typically bear the risk of loss and the cost of maintenance and repair on solar systems that are owned or leased by our fund investors.

We typically bear the risk of loss and are generally obligated to cover the cost of maintenance and repair on any solar systems that we sell or lease to our fund investors. At the time we sell or lease a solar system to a fund investor, we enter into a maintenance services agreement where we agree to operate and maintain the system for a fixed fee that is calculated to cover our future expected maintenance costs. If our solar systems require an above-average amount of repairs or if the cost of repairing systems were higher than our estimate, we would need to perform such repairs without additional compensation. If our solar systems, a majority of which are located in California, are damaged in the event of a natural disaster beyond our control, losses could be excluded, such as earthquake

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damage, or exceed insurance policy limits, and we could incur unforeseen costs that could harm our business and financial condition. We may also incur significant costs for taking other actions in preparation for, or in reaction to, such events. We purchase Property and Business Interruption insurance with industry standard coverage and limits approved by an investor's third-party insurance advisors to hedge against such risk, but such coverage may not cover our losses.

Any unauthorized disclosure or theft of personal information we gather, store and use could harm our reputation and subject us to claims or litigation.

We receive, store and use personal information of our customers, including names, addresses, e-mail addresses, credit information and other housing and energy use information. Unauthorized disclosure of such personal information, whether through breach of our systems by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If we were subject to an inadvertent disclosure of such personal information, or if a third party were to gain unauthorized access to customer personal information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by our customers. In addition, we could incur significant costs in complying with the multitude of federal, state and local laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our total consolidated indebtedness was \$751.8 million as of June 30, 2014. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including our 2.75% Convertible Senior Notes due 2018 issued in November 2013 (the "Notes"), depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We expect to incur substantially more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries expect to incur additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the Notes that could have the effect of diminishing our ability to make payments on the Notes when due. Our existing credit facilities restrict our ability to incur additional indebtedness, including secured indebtedness, but we may be able to obtain waivers of such restrictions or may not be subject to such restrictions under the terms of any subsequent indebtedness.

We may have trouble refinancing our credit facilities or obtaining new financing for our working capital, equipment financing and other needs in the future or complying with the terms of existing credit facilities. If credit facilities are not available to us on acceptable terms, if and when needed, or if we are unable to comply with their

terms, our ability to continue to grow our business would be adversely impacted.

We have entered into several secured credit agreements, including a working capital facility under which we may currently borrow up to \$250.0 million (with \$200.0 million currently committed from several lenders and an additional \$50.0 million subject to further conditions) that matures in December 2016. The working capital facility requires us to comply with certain financial, reporting and other requirements. The timing of our commercial projects has on occasion adversely affected our ability to satisfy certain financial covenants under these or prior facilities. While our lenders have given us waivers of certain covenants we have not satisfied in the past, there is no assurance that the lenders will waive or forbear from exercising their remedies with respect to any future defaults that might occur. For example, in May 2013, we executed amendments to two of our then outstanding secured credit facilities and obtained a waiver from our lenders under our third secured credit facility so that financial covenants regarding debt service coverage for the first quarter of 2013 would not apply to us because our trailing twelve-month non-GAAP EBITDA would have been insufficient to satisfy the covenants. In June 2013, we amended the debt service coverage ratio in our remaining two secured credit facilities to limit debt service to only cash interest charges. While we believe that some of the financial and other covenants are generally more favorable to us following these changes, a breach of our covenants may still occur in the future.

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Further, there is no assurance that we will be able to enter into new credit facilities on acceptable terms. If we are unable to satisfy financial covenants and other terms under existing or new facilities or obtain associated waivers or forbearance from our lenders or if we are unable to obtain refinancing or new financings for our working capital, equipment and other needs on acceptable terms if and when needed, our business would be adversely affected.

We may not have the ability to raise the funds necessary to repurchase the Notes, including upon a fundamental change, and one of our current credit facilities prohibits us from repurchasing the issued notes upon a fundamental change.

Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. However, at the time we may be required to repurchase the Notes we may not have sufficient available cash or be able to obtain sufficient financing to allow for repurchase. In addition, one of our existing credit facilities prohibits us from repurchasing the Notes upon a fundamental change, and we may enter into agreements in the future that similarly restrict our ability to repurchase the Notes and other securities. Our failure to repurchase the Notes when required would constitute a default which may result in defaults under other agreements governing our existing or future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof. Our ability to repurchase the Notes may also be limited by law or by regulatory authority.

We intend to expand our international activities, which will subject us to a number of risks.

Our long-term strategic plans include international expansion, and we intend to sell our solar energy products and services in international markets. Risks inherent to international operations include the following:

inability to work successfully with third parties with local expertise to co-develop international projects;

multiple, conflicting and changing laws and regulations, including export and import restrictions, tax laws and regulations, environmental regulations, labor laws and other government requirements, approvals, permits and licenses;

changes in general economic and political conditions in the countries where we operate, including changes in government incentives relating to power generation and solar electricity;

political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;

difficulties and costs in recruiting and retaining individuals skilled in international business operations;

international business practices that may conflict with U.S. customs or legal requirements;

financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable;

fluctuations in currency exchange rates relative to the U.S. dollar; and

inability to obtain, maintain or enforce intellectual property rights, including inability to apply for or register material trademarks in foreign countries.

Doing business in foreign markets requires us to be able to respond to rapid changes in market, legal, and political conditions in these countries. The success of our business will depend, in part, on our ability to succeed in differing legal, regulatory, economic, social and political environments. We may not be able to develop and implement policies and strategies that will be effective in each location where we do business.

Risks Related to the Ownership of Our Common Stock

Our stock price has been and may continue to be volatile, and the value of your investment could decline.

The trading price of our common stock has been volatile since our initial public offering. Since shares of our common stock were sold in our initial public offering in December 2012 at a price of \$8.00 per share, the reported high and low sales prices of our common stock on the NASDAQ Global Select Market has ranged from \$9.20 to \$88.35 per share, through August 5, 2014. The market price of our common stock may fluctuate widely in response to many risk factors listed in this section and others beyond our control, including:

changes in laws or regulations applicable to our industry, products or services, including the effects of tariffs and other anti-competitive actions;

additions or departures of key personnel;

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actual or anticipated changes in expectations regarding our performance by investors or securities analysts;

price and volume fluctuations in the overall stock market;

volatility in the market price and trading volume of companies in our industry or companies that investors consider comparable;

share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;

addition or loss of significant customers;

our ability to protect our intellectual property and other proprietary rights;

sales of our common stock by us or our stockholders, including as a result of recent offerings and acquisitions;

litigation involving us, our industry or both;

major catastrophic events; and

general economic and market conditions and trends.

Further, in recent years the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In addition, the stock prices of many renewable energy companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, government shutdowns, interest rate changes or international currency fluctuations, may cause the market price of our common stock to decline. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale and issuance.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Such sales may occur in connection with our acquisitions, such as our issuance of approximately 6.5 million shares in the aggregate for our

acquisitions of Zep Solar and certain assets of Paramount Solar in 2013, and we will issue additional shares in connection with our proposed acquisition of Silevo, Inc. In addition, holders of a substantial amount of our common stock are entitled to rights with respect to registration of these shares under the Securities Act pursuant to an investors rights agreement. If these holders of our common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.

As of June 30, 2014, our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, owned approximately 47.5% of the outstanding shares of our common stock. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and that may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

Provisions in our certificate of incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by discouraging, delaying or preventing a change of control of our company or changes in our management that the stockholders of our company may believe advantageous. These provisions include:

establishing a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;

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authorizing blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

limiting the ability of stockholders to call a special stockholder meeting;

limiting the ability of stockholders to act by written consent;

providing that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

establishing advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock, to some extent, depends on the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who cover us adversely change their recommendation regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

ITEM 6. EXHIBITS

The documents listed in the Exhibit Index of this quarterly report on Form 10-Q are incorporated by reference or are filed with this quarterly report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

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SIGNATURES

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

Date: August 7, 2014

SOLARCITY CORPORATION

By: /s/ LYNDON R. RIVE
Lyndon R. Rive
Chief Executive Officer

Table of Contents**EXHIBIT INDEX**

Exhibit	Exhibit Description
Number	
2.1	Agreement and Plan of Merger, dated as of June 16, 2014, by and among SolarCity Corporation, Sunflower Acquisition Corporation, Sunflower Acquisition LLC, Silevo, Inc., Richard Lim, as Securityholder Representative, and U.S. Bank National Association, as Escrow Agent (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 17, 2014).
10.10f	First Amendment to the Amended and Restated Credit Agreement, dated as of June 27, 2014, by and among the Registrant, Bank of America, N.A. and other banks and financial institutions party thereto.
10.10g*	Second Amendment to the Amended and Restated Credit Agreement, dated as of July 11, 2014, by and among the Registrant, Bank of America, N.A. and other banks and financial institutions party thereto.
10.14c*	Third Amendment to Loan Agreement among Hammerhead Solar, LLC (an indirect wholly owned subsidiary of the Registrant), Bank of America, N.A. and other banks and financial institutions party thereto, dated as of May 23, 2014.
10.15*	Loan Agreement, dated as of May 23, 2014, by and among AU Solar 2, LLC (an indirect wholly owned subsidiary of the Registrant), ING Capital LLC, CIT Finance LLC, Goldman Sachs Lending Partners LLC, Crédit Agricole Corporate and Investment Bank and the other banks and financial institutions party thereto.
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 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 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 Schema Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Labels Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

* Confidential treatment requested as to certain portions of this exhibit, which portions have been omitted and submitted separately to the Securities and Exchange Commission.

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The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of SolarCity Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.