SOLARCITY CORP
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

¨ **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	**02-0781046**
(State or other jurisdiction of	**(I.R.S. employer**
incorporation or organization)	**Identification No.)**
3055 Clearview Way	
San Mateo, California	**94402**
(Address of principal executive offices)	**(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 x 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 x No ¨

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

Large accelerated filer x	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 x

The number of shares outstanding of the registrant s common stock as of September 30, 2014 was 96,000,871.

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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 the aggregate megawatt, or MW, production capacity of our systems is an indicator of the growth rate of our solar energy systems business; the calculation of estimated nominal contracted payments remaining, and certain other metrics based on forward-looking projections; 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 ability to successfully integrate Silevo, Inc. s business, operations and personnel and achieve manufacturing economies of scale and associated cost reductions; our expectations regarding the Riverbend Agreement and the development and construction of the Riverbend facility, including expected capital and operating expenses and the performance of our manufacturing operations; 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.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SolarCity Corporation

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Par Values)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 696,516	$ 577,080
Short-term investments	36,943	
Restricted cash	22,710	19,182
Accounts receivable (net of allowances for doubtful accounts of $1,109 and $955 as of September 30, 2014 and December 31, 2013, respectively)	22,931	23,011
Rebates receivable net	26,313	20,131
Inventories	185,955	111,394
Deferred income tax asset	12,096	9,845
Prepaid expenses and other current assets	46,001	27,020
Total current assets	1,049,465	787,663
Restricted cash	607	301
Solar energy systems, leased and to be leased net	2,440,140	1,682,521
Property and equipment net	64,416	22,407
Goodwill and intangible assets net	524,314	278,169
Other assets	70,438	38,473
Total assets(1)	$ 4,149,380	$ 2,809,534
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 205,980	$ 121,556
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	6,934	20,390
Current portion of deferred U.S. Treasury grant income	15,330	15,340
Accrued and other current liabilities	133,657	72,157
Customer deposits	8,268	8,828
Current portion of deferred revenue	83,016	59,899
Current portion of long-term debt	12,099	7,422
Current portion of solar asset-backed notes	13,462	3,155
Current portion of lease pass-through financing obligation	30,813	29,041

Current portion of sale-leaseback financing obligation	546	418
Total current liabilities	510,105	338,206
Deferred revenue, net of current portion	515,098	410,161
Long-term debt, net of current portion	263,199	238,612
Convertible senior notes	730,000	230,000
Solar asset-backed notes, net of current portion	306,480	49,780
Long-term deferred tax liability	11,499	9,238
Lease pass-through financing obligation, net of current portion	58,453	64,167
Sale-leaseback financing obligation, net of current portion	14,004	14,338
Deferred U.S. Treasury grant income, net of current portion	401,319	412,469
Other liabilities and deferred credits	215,119	193,439
Total liabilities(1)	3,025,276	1,960,410
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests in subsidiaries	169,244	44,709
Stockholders equity:		
Common stock, $0.0001 par value authorized, 1,000,000 shares as of September 30, 2014 and December 31, 2013; issued and outstanding, 96,001 and 91,009 shares as of September 30, 2014 and December 31, 2013, respectively	10	10
Additional paid-in capital	982,701	819,914
Accumulated deficit	(254,805)	(202,326)
Total stockholders equity	727,906	617,598
Noncontrolling interests in subsidiaries	226,954	186,817
Total equity	954,860	804,415
Total liabilities and equity	$ 4,149,380	$ 2,809,534

(1) SolarCity Corporation s, or the Company s, consolidated assets as of September 30, 2014 and December 31, 2013 include $1,332,276 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 $1,245,508 and $759,148 as of September 30, 2014 and December 31, 2013, respectively; property and equipment-net, of $25,855 and $0 as of September 30, 2014 and December 31, 2013, respectively; cash and cash equivalents of $24,254 and $35,141 as of September 30, 2014 and December 31, 2013, respectively; inventory, of $2,764 and $0 as of September 30, 2014 and December 31, 2013, respectively; restricted cash, current, of $892 and $115 as of September 30, 2014 and December 31, 2013, respectively; accounts receivable, net, of $7,746 and $4,802 as of September 30, 2014 and December 31, 2013, respectively; prepaid expenses and other assets of $852 and $3,831 as of September 30, 2014 and December 31, 2013, respectively; rebates receivable of $20,849 and $17,351 as of September 30, 2014 and December 31, 2013, respectively; restricted cash, noncurrent, of $300 and $0 as of September 30, 2014 and December 31, 2013, respectively; and other assets of $3,256 and $2,777 as of September 30, 2014 and December 31, 2013, respectively. The Company s consolidated liabilities as of September 30, 2014 and December 31, 2013 include $29,811 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 $6,934 and

$20,390 as of September 30, 2014 and December 31, 2013, respectively; accounts payable of $3,292 and $0 as of September 30, 2014 and December 31, 2013, respectively; customer deposits of $4,066 and $5,291 as of September 30, 2014 and December 31, 2013, respectively; accrued liabilities and other payables of $816 and $615 as of September 30, 2014 and December 31, 2013, respectively; and bank borrowings of $14,703 and $5,733 as of September 30, 2014 and December 31, 2013, respectively.

See further description in Note 3, *Acquisition*, and Note 7, *VIE Fund Arrangements*.

See accompanying notes.

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SolarCity Corporation

Condensed Consolidated Statements of Operations

(In Thousands, Except Share and Per Share Amounts)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue:				
Operating leases and solar energy systems incentives	$ 52,178	$ 24,796	$ 124,431	$ 60,493
Solar energy systems and components sales	6,165	23,804	58,792	56,044
Total revenue	58,343	48,600	183,223	116,537
Cost of revenue:				
Operating leases and solar energy systems incentives	25,728	8,619	62,533	21,165
Solar energy systems and components sales	6,640	26,128	57,057	65,849
Total cost of revenue	32,368	34,747	119,590	87,014
Gross profit	25,975	13,853	63,633	29,523
Operating expenses:				
Sales and marketing	56,472	24,310	159,093	63,533
General and administrative	39,608	21,062	111,006	59,090
Research and development	4,235	364	9,158	973
Total operating expenses	100,315	45,736	279,257	123,596
Loss from operations	(74,340)	(31,883)	(215,624)	(94,073)
Interest expense net	16,321	5,781	37,192	17,521
Other expense net	2,961	123	4,293	425
Loss before income taxes	(93,622)	(37,787)	(257,109)	(112,019)
Income tax benefit (provision)	23,506	(23)	23,315	57
Net loss	(70,116)	(37,810)	(233,794)	(111,962)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(89,352)	(35,707)	(181,315)	(29,479)
Net income (loss) attributable to stockholders	$ 19,236	$ (2,103)	$ (52,479)	$ (82,483)

Net income (loss) attributable to common stockholders								
Basic	$	19,236	$	(2,103)	$	(52,479)	$	(82,483)
Diluted	$	19,236	$	(2,103)	$	(52,479)	$	(82,483)
Net income (loss) per share attributable to common stockholders								
Basic	$	0.21	$	(0.03)	$	(0.57)	$	(1.07)
Diluted	$	0.19	$	(0.03)	$	(0.57)	$	(1.07)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders								
Basic		93,323,687		79,918,110		92,335,789		77,228,677
Diluted		99,380,397		79,918,110		92,335,789		77,228,677

See accompanying notes.

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SolarCity Corporation

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Operating activities:		
Net loss	$ (233,794)	$ (111,962)
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	30
Depreciation and amortization net of amortization of deferred U.S. Treasury grant income	66,602	25,674
Interest on lease pass-through financing obligation	8,692	10,035
Non cash interest on investment in notes receivable	(85)	
Stock-based compensation, net of amounts capitalized	45,660	13,400
Loss on extinguishment of long-term debt	1,504	
Deferred income taxes	(23,696)	9
Reduction in lease pass-through financing obligation	(36,407)	(25,525)
Changes in operating assets and liabilities:		
Restricted cash	(3,834)	1,454
Accounts receivable	722	(8,162)
Rebates receivable	(6,182)	(1,657)
Inventories	(66,325)	(3,058)
Prepaid expenses and other current assets	(15,186)	(17,449)
Other assets	(12,092)	(3,411)
Accounts payable	80,651	70,839
Accrued and other liabilities	(17,283)	65,755
Customer deposits	(560)	1,299
Deferred revenue	128,054	143,379
Net cash (used in) provided by operating activities	(82,332)	160,650
Investing activities:		
Payments for the cost of solar energy systems, leased and to be leased	(793,713)	(485,402)
Purchase of property and equipment	(13,420)	(5,827)
Investment in promissory notes receivable and other advances	(15,750)	
Purchases of short term investments	(46,543)	
Proceeds for sales of short term investments	9,600	
Acquisition of business, net of cash acquired	1,874	(3,758)
Payments to acquire redeemable noncontrolling interest in a subsidiary	(450)	

Net cash used in investing activities	(858,402)	(494,987)
Financing activities:		
Investment fund financings, bank and other borrowings:		
Borrowings under long-term debt	256,090	57,161
Repayments of long-term debt	(246,726)	(24,690)
Proceeds from issuance of solar asset-backed notes	263,551	
Repayments of borrowings under solar asset-backed notes	(3,962)	
Payment of deferred purchase consideration	(957)	
Repayments of sale-leaseback financing obligation	(206)	(290)
Proceeds from lease pass-through financing obligation	30,124	31,233
Repayments of lease pass-through financing obligation	(6,351)	
Repayment of capital lease obligations	(1,153)	(1,594)
Proceeds from investment by noncontrolling interests and redeemable noncontrolling interests in subsidiaries	428,061	221,175
Distributions paid to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(107,254)	(117,017)
Proceeds from U.S. Treasury grants	342	123,816
Net cash provided by financing activities before equity and convertible notes issuances	611,559	289,794
Equity and convertible notes issuances:		
Proceeds from issuance of convertible senior notes	488,713	
Purchase of capped call options	(57,600)	
Proceeds from exercise of stock options	17,498	9,415
Proceeds from exercise of common stock warrants		8,034
Net cash provided by equity and convertible notes issuances	448,611	17,449
Net cash provided by financing activities	1,060,170	307,243
Net increase (decrease) in cash and cash equivalents	119,436	(27,094)
Cash and cash equivalents, beginning of period	577,080	160,080
Cash and cash equivalents, end of period	$ 696,516	$ 132,986
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 15,583	$ 4,924
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, manufacturing, 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 3, *Acquisition*, and Note 7, *VIE Fund Arrangements*). The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All material 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 tangible and intangible assets, the fair value of debt assumed under business combinations, the fair value of contingent consideration payable under business combinations, 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.

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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.

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 December 31, 2013, there were no fair value measurements of assets or liabilities subsequent to initial recognition. As of September 30, 2014, the assets and liabilities carried at fair value on a recurring basis included cash equivalents, short-term investments and contingent consideration (see Note 3, *Acquisition*). The Company includes highly liquid investments with original maturities of three months or less under cash equivalents. The Company includes all other highly liquid investments under short-term investments. The Company classifies its short-term investments as available-for-sale. There were no material gains or losses, both realized and unrealized on a specific identification basis, on short-term investments or contingent consideration in the three and nine months ended September 30, 2014. As of September 30, 2014, the fair value of the Company s cash equivalents, short-term investments and contingent consideration were as follows (in thousands):

	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	$ 358,152	$	$
Short-term investments:			
Corporate debt securities		36,943	
Liabilities:			
Contingent consideration			95,562

The Company classified its cash equivalents within Level 1 because it used quoted market prices to determine their fair values. The Company classified its short-term investments within Level 2 because it used alternative pricing sources and models that utilized market observable inputs to determine their fair values. The Company classified its contingent consideration within Level 3 because it used unobservable probability-weighted estimated outcomes and an unobservable estimated discount rate applicable to the acquisition to determine the fair value. The contingent consideration is dependent on the achievement of specified production milestones for the acquired business as discussed in Note 3, *Acquisition*. The fair value of the contingent consideration is directly proportional to the estimated probability of achievement of these milestones. All corporate debt securities contractually mature within the next 12 months.

The Company s financial instruments that were not re-measured at fair value 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 these 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 September 30, 2014 and December 31, 2013 (Level 1). The fair value of convertible senior notes was $759.3 million and $273.0 million as of September 30, 2014 and December 31, 2013, respectively, based on their last actively traded prices (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 $328.3 million and $52.9 million as of September 30, 2014 and December 31, 2013, respectively. The Company has estimated the fair value of the participation interest to be $14.0 million and $15.1 million as of September 30, 2014 and December 31, 2013, respectively, based on rates currently offered for instruments with similar maturities and terms (Level 3).

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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 10 to 30 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 Nine Months Ended September 30, 2014	
Balance beginning of the period	$	7,502
Change in estimate credited to warranty expense		(614)
Current year provision charged to warranty expense		1,507
Less warranty claims		(386)
Balance end of the period	$	8,009

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 September 30, 2014 and December 31, 2013, the Company had recorded liabilities of $1.3 million and $1.0 million, respectively, under 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 significant other comprehensive income (losses) and no significant 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.

Segment Information

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.

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In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40)*, to provide guidance within GAAP requiring management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and requiring related disclosures. The ASU is effective for annual periods ending after December 15, 2016. The Company believes that the ASU will have no impact on its consolidated financial statements.

3. Acquisition

Silevo, Inc.

On September 23, 2014, the Company completed its acquisition of Silevo, Inc., or Silevo, a designer and manufacturer of high performance solar cells. Silevo had operations primarily in the United States, where it carries-out research and development activities as well as sales of products, and China, where it was the managing partner in a joint venture that manufactures the solar cells for the subsequent contract manufacturing of high performing solar panels. The acquisition is expected to enable the Company to manage its supply chain and control the design and manufacturing of solar cells that are a key component of the Company s solar energy systems, as well as enable the Company to utilize and combine Silevo s technology with economies of scale to achieve significant cost reductions.

The purchase consideration was comprised of approximately $0.3 million in cash and 2,284,070 shares of the Company s common stock, inclusive of 429,301 shares held in escrow until November 2015 to secure the indemnification obligations of Silevo s former stockholders, with an aggregate fair value of $138.0 million based on the closing price of the Company s common stock on the acquisition date. Additionally, the Company may pay up to approximately $150.0 million in additional shares of the Company s common stock to Silevo s former stockholders, subject to the achievement of specified production milestones, as contingent consideration. No amounts would be payable for any milestones not achieved. The Company has estimated the fair value of the contingent consideration to be approximately $95.6 million using a probability-weighted discounted cash flow methodology. The Company also issued Silevo employees rights to receive SolarCity common stock as replacement for unvested Silevo common stock options that vest as the employees provide future services to the Company. Purchase consideration included $15.8 million that had previously been advanced to Silevo. The table below summarizes the preliminary determination of the fair value of the purchase consideration in the acquired business as of the acquisition date (in thousands):

Cash	$ 326
Common stock	137,958
Restricted stock units issued to replace Silevo s unvested stock options	132
Amounts advanced to Silevo prior to acquisition and costs paid on behalf of sellers at acquisition	16,760
Closing consideration payable	413
Contingent consideration payable	95,562
Total purchase consideration	**$ 251,151**

The Company is in the process of obtaining a third-party valuation of the contingent consideration payable. Accordingly, the preliminary fair values reflected in the table above are subject to change.

The following table summarizes the preliminary assessment of the fair values of the assets acquired, the liabilities assumed and the noncontrolling interests as of the acquisition date (in thousands). The Company is in the process of obtaining a third-party valuation of the assets acquired including the intangible assets, inventory and property plant and equipment, the liabilities and term loan assumed, and the noncontrolling interests. Accordingly, the preliminary fair values reflected in the following table are subject to change:

Cash	$ 2,899
Accounts receivable	642
Inventories	8,182
Prepaid and other assets	899
Property and equipment	28,281
Accounts payable and other liabilities	(5,427)
Term loan	(9,103)
Deferred tax liabilities	(23,706)
Intangible assets	119,000
Total identifiable net assets at fair value	**121,667**
Redeemable noncontrolling interests	(14,174)
Goodwill	143,658
Total purchase consideration	**$ 251,151**

The goodwill recognized was primarily attributable to the value of expected synergies, efficiencies and cost savings that the Company expects to achieve in leveraging Silevo s technology in the volume manufacturing of high efficiency solar panels, in addition to the value of the assembled workforce and the manufacturing experience of Silevo. The acquisition of Silevo s technology is anticipated to reduce the Company s costs of procuring solar panels, reduce the number of solar panels and other components used in solar energy systems, reduce the installation time of solar energy systems and improve efficiencies and profitability. The full amount of the goodwill is not deductible for tax purposes.

The acquired intangible assets are all amortized over their estimated useful life of 10 years.

The condensed consolidated statements of operations include revenue of $0.0 million and a net loss of $0.2 million from Silevo for the period from the acquisition date through September 30, 2014. In addition, the Company incurred $3.5 million of general and administrative expenses for acquisition-related legal and other professional services fees and the termination of a pre-existing contract.

The unaudited pro forma financial information for the acquisition of Silevo, as if it had been consummated on January 1, 2013, is as follows (in thousands):

	Three Months Ended September 30,	
	2014	**2013**
Total revenue	$ 60,444	$ 48,872
Net income (loss) attributable to common stockholders	$ 11,540	$ (9,424)
Net income (loss) per share attributable to common stockholders, diluted	$ 0.11	$ (0.11)

	Nine Months Ended September 30,	
	2014	**2013**
Total revenue	$ 187,885	$ 116,880
Net loss attributable to common stockholders	$ (82,671)	$ (109,181)
Net loss per share attributable to common stockholders, diluted	$ (0.87)	$ (1.37)

The pro forma financial information is hypothetical and based on the combined results of operations of Silevo and the Company with adjustments for the amortization of the acquired intangible assets and the timing of acquisition expenses. The pro forma financial information is not necessarily indicative of the actual consolidated results of operations in prior or future periods had the acquisition actually consummated on January 1, 2013. For instance, the Company anticipates that it will consume the vast majority of Silevo s products for the near future. Generally, Silevo products sold to the Company will initially be capitalized as inventory and eventually as cost of leased or sold solar energy systems.

Silevo s Joint Venture in China

Silevo operates a joint venture, Silevo China Company Limited or the JV, with three other Chinese entities, or the JV Partners, to develop, manufacture and market high performance solar cells. Silevo owns 65.7% of the outstanding capital of the JV, and the rest is owned by the JV Partners. Silevo has a Manufacturing Services and Technology

Licensing Agreement with the JV to acquire solar cells on a cost-plus basis. The JV is required to obtain Silevo s consent to sell products to any third-party. The agreement had an initial term of one year and automatically renews for successive one-year periods.

The Company has determined that the JV is a VIE and that Silevo is the primary beneficiary of the JV since the variable interests held by Silevo empower it to direct the activities that most significantly impact the joint venture s economic performance. In reaching this determination, the Company considered the significant control exercised by Silevo over the JV s Board of Directors, management and the daily operations of the JV.

Silevo has the right to acquire the JV Partners interests in the JV at any time within five years from the date of their initial capital contribution. The JV Partners have the right to sell all or part of their interests in the JV to Silevo if the JV does not meet certain conditions set out in the JV contract, which include meeting set production targets within a specified time frame. The JV did not meet some of those targets, and as such, the option is currently exercisable. The JV is not allowed to make a profit distribution to investors prior to the full exit of JV Partners from their investments in the JV.

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Since Silevo has been determined to be the primary beneficiary of the JV, the JV s assets, liabilities and results of operations are included in the Company s condensed consolidated financial statements. The JV Partners interests in the JV are reflected in redeemable noncontrolling interests on the condensed consolidated balance sheets. The JV Partners interests in the JV were recorded at fair value as of the Silevo acquisition date, which considered the JV Partners share of the JV s enterprise value and the value of the JV Partners option to sell their interests in the JV to Silevo.

The following table summarizes the carrying amounts of the JV s assets and liabilities included in the Company s condensed consolidated balance sheet at September 30, 2014 (in thousands):

Cash	$ 484
Inventories	2,764
Prepaid and other current assets	249
Property and equipment	25,855
Total assets	**$ 29,352**
Accounts payable	3,292
Accrued and other current liabilities	710
Term loan	9,103
Total liabilities	**$ 13,105**

4. Goodwill and Intangible Assets

The Company is currently obtaining and finalizing the third-party valuations of certain assets, liabilities, redeemable noncontrolling interests acquired through the Silevo and Zep Solar, Inc., or Zep Solar, acquisitions in the third quarter of 2014 and the fourth quarter of 2013, respectively, including the gross amounts of certain intangible assets presented in the table below. The Company is also continuing the process of reviewing the third-party valuation of contingent consideration payable on the acquisition of Silevo. There were no material changes recorded in the nine months ended September 30, 2014 related to the amounts reported in the Company s Form 10-K for the year ended December 31, 2013, 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 September 30, 2014 (in thousands):

		Gross	Accumulated Amortization	Transfer to solar energy systems leased and to be leased	Write offs and cancellations	Net
Developed technology	Silevo	$ 115,000	$ (221)	$	$	$ 114,779

Developed technology Zep Solar	60,100	(6,924)			53,176
Trademarks and trade names	24,700	(2,846)			21,854
Marketing database	17,427	(3,727)			13,700
PowerSaver agreement	17,077	(1,826)			15,251
Solar energy systems backlog	12,434		(10,740)	(1,642)	52
Non-compete agreement	6,959	(1,488)			5,471
Mortgage database	4,628	(1,650)			2,978
Riverbend Agreement	4,000	(8)			3,992
Customer orders backlog	700	(700)			
Internally developed software	500	(134)			366
Funding commitment	200	(43)			157
Total	$ 263,725	$ (19,567)	$ (10,740)	$ (1,642)	$ 231,776

Developed Technology   Silevo

Silevo developed technology represents high performance solar cell technology acquired through the Silevo acquisition. The high performance technology would allow the Company to achieve improved solar energy system performance and reduce the overall deployment cost per watt of the solar energy systems sold or leased.

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Developed Technology Zep Solar

Zep Solar developed technology represents 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 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. These 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.

Riverbend Agreement

The Riverbend Agreement represents an arrangement with the State of New York whereby the State will construct a facility to manufacture solar panels, procure equipment for use in the facility, and lease the facility to the Company, and the Company will undertake a number of obligations, including meeting specified hiring and capital expenditure requirements, among others.

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.

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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 $16.2 million and $0.6 million for the nine months ended September 30, 2014 and 2013, respectively. Of the total amortization expense for the nine months ended September 30, 2014, $5.3 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 $8.8 million is included in sales and marketing expense in the condensed consolidated statements of operations. No intangible assets were impaired during the nine months ended September 30, 2014. However, in the nine months ended September 30, 2014, the 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):

Three months ending December 31, 2014	$ 8,087
2015	32,349
2016	31,846
2017	30,639
2018	29,068
2019	25,722
Thereafter	74,013
Total	$ 231,724

Goodwill

The carrying value of goodwill increased from $148.9 million to $292.5 million in the nine months ended September 30, 2014 as a result of the Silevo acquisition.

5. Selected Balance Sheet Components

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

	September 30, 2014 (unaudited)	December 31, 2013
Inventories:		
Raw materials	$ 182,920	$ 105,919
Work in progress	3,035	5,475
Total	$ 185,955	$ 111,394
Solar Energy Systems, Leased and To Be Leased Net:		
Solar energy systems leased to customers	$ 2,097,807	$ 1,513,731
	170,881	94,321

Initial direct costs related to solar energy systems leased to customers		
	2,268,688	1,608,052
Less accumulated depreciation and amortization	(137,506)	(86,457)
	2,131,182	1,521,595
Solar energy systems under construction	139,519	53,010
Solar energy systems to be leased to customers	169,439	107,916
Solar energy systems, leased and to be leased net(1)	$ 2,440,140	$ 1,682,521
Other Liabilities and Deferred Credits:		
Deferred gain on sale-leaseback transactions, net of current portion	$ 55,601	$ 58,033
Deferred rent expense	2,818	3,333
Capital lease obligation	25,920	27,126
Liability for receipts from investors	24,003	72,520
Contingent consideration	57,290	
Participation interest	15,333	14,114
Other noncurrent liabilities	34,154	18,313
Total	$ 215,119	$ 193,439

(1) Included in solar energy systems leased to customers as of September 30, 2014 and December 31, 2013 was $66.4 million related to capital leased assets with an accumulated depreciation of $7.3 million and $5.3 million, respectively.

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6. Indebtedness

The following is a summary of debt of the Company and its subsidiaries as of September 30, 2014 (dollars in thousands):

	Unpaid Principal Balance	Carrying Value, Net of Fees Current	Carrying Value, Net of Fees Long-Term	Unused Borrowing Capacity	Interest Rate	Maturity Dates
Recourse debt:						
Revolving credit facility	$ 143,459	$	$ 140,214	$ 56,541	3.4%	December 2016
Vehicle loans	10,498	2,788	7,710		1.9% 7.5%	March 2015 December 2018
2.75% Convertible senior notes due in 2018	230,000		230,000		2.8%	November 2018
1.625% Convertible senior notes due in 2019	500,000		500,000		1.6%	November 2019
Total recourse debt	883,957	2,788	877,924	56,541		
Non-recourse debt:						
Credit facility for SolarStrong	5,600	208	5,163	344,000	6.8% 7.3%	June 2032 December 2032
Term loan assumed from Silevo acquisition	9,103	9,103			7.8%	June 2015
Term loan due in May 2016	30,106		29,379	94,894	3.2%	May 2016
Term loan due in December 2016	82,555		80,733	167,445	3.4% 3.5%	December 2016
Solar Asset-backed Notes, Series 2013-1	50,607	3,285	47,322		4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	68,557	2,740	65,817		4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	201,494	7,437	193,341		4.0% Class A 5.4% Class B	July 2044
Total non-recourse debt	448,022	22,773	421,755	606,339		
Total debt	$ 1,331,979	$ 25,561	$ 1,299,679	$ 662,880		

The following is a summary of debt as of December 31, 2013 (dollars in thousands):

	Unpaid Principal Balance	Carrying Value, Net of Fees: Current	Carrying Value, Net of Fees: Long-Term	Unused Borrowing Capacity	Interest Rate	Maturity Date
Recourse debt:						
Revolving credit facility	$ 142,531	$	$ 138,535	$ 57,469	3.4% 5.5%	December 2016
Vehicle loans	6,517	1,789	4,728		0.0% 7.5%	March 2015 December 2018
2.75% Convertible senior notes due in 2018	230,000		230,000		2.8%	November 2018
Total recourse debt	379,048	1,789	373,263	57,469		
Non-recourse debt:						
Working capital financing	9,990	1,197	8,793		5.5% 5.6%	December 2024
Credit facility for SolarStrong	5,733	149	5,297	344,000	6.8% 7.3%	June 2032 December 2032
Term loan due in June 2015	87,891	4,192	81,260	12,109	3.4% 3.7%	June 2015
Solar Asset-backed Notes, Series 2013-1	52,934	3,155	49,779		4.8%	November 2038
Total non-recourse debt	156,548	8,693	145,129	356,109		
Other debt	95	95				
Total debt	$ 535,691	$ 10,577	$ 518,392	$ 413,578		

Recourse debt refers to debt that is recourse to the Company s general assets. Non-recourse debt refers to debt that is recourse to only specified assets or subsidiaries of the Company. Below is a description of the Company s debt.

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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 $200.0 million in 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%. 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. In each of June, July, September and October 2014, the revolving credit facility was amended to increase certain debt covenant thresholds, including those related to permitted investment amounts by the Company, and to make certain changes in connection with the Company s acquisition of Silevo and issuance of certain loans and debt, among other things. The Company was in compliance with all debt covenants as of September 30, 2014.

Vehicle Loans

The Company has entered into various vehicle loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed. The Company was in compliance with all debt covenants as of September 30, 2014.

2.75% Convertible Senior Notes Due in 2018

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 debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

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. The Company was in compliance with all debt covenants as of September 30, 2014.

1.625% Convertible Senior Notes Due in 2019

In September 2014, the Company issued $500.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019 through a private placement. The net amount from the issuance, after deducting transaction costs, was $488.3 million. The debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 11.9720 shares of the Company s common stock, which is equivalent to an initial conversion price of $83.53 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 15.8629 shares for each $1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of $63.04 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. The Company was in compliance with all debt covenants as of September 30, 2014.

In connection with the issuance of the convertible senior notes in September 2014, the Company paid $57.6 million to enter into a capped call option agreement to reduce the potential dilution to holders of the Company s common stock upon conversion of the convertible senior notes. The capped call option agreement has a cap price of $126.08 and an initial strike price of $83.53, which is equal to the initial conversion price of the convertible senior notes. The capped call options expire on various dates ranging from September 4, 2019 to October 29, 2019. The capped call option agreement is a separate transaction, is not a part of the terms of the convertible senior notes and does not affect the rights of the convertible senior note holders. The capped call option agreement met the criteria for equity classification and was recorded as a reduction to additional paid-in capital. The capped call option agreement is excluded from the calculation of diluted net income (loss) per share attributable to common stockholders as its effect is antidilutive.

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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 bore 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 was secured by substantially all of the subsidiary s assets and was nonrecourse to the Company s other assets. On July 2, 2014, the Company fully repaid the outstanding balance of and terminated the working capital financing.

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 $350.0 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. The credit facility is secured by the assets of the SolarStrong initiative and is non-recourse to the Company s other assets. The Company was in compliance with all debt covenants as of September 30, 2014 and is currently re-evaluating the terms of this facility.

Term Loan Due in June 2015

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 bore interest at an annual rate of LIBOR plus 3.25%. The term loan was secured by the assets and cash flows of the subsidiary and was non-recourse to the Company s other assets. On July 31, 2014, the Company fully repaid the outstanding balance of and terminated the term loan in connection with the issuance of Solar Asset-backed Notes, Series 2014-2, as described below.

Term Loan Assumed From Silevo Acquisition

Through the Silevo acquisition, the Company assumed a pre-existing term loan with an outstanding principal balance of $9.1 million. The term loan bears interest at a fixed rate of 7.8% per annum. The term loan is a liability of the JV only and is non-recourse to Company and its other subsidiaries. The Company was in compliance with all debt covenants as of September 30, 2014.

Term Loan Due in May 2016

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%. 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 Company was in compliance with all debt covenants as of September 30, 2014.

Term Loan Due in December 2016

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%. 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 Company was in compliance with all debt covenants as of September 30, 2014.

Solar Asset-backed Notes, Series 2013-1

The Company has structured and entered into various solar asset-backed note securitization transactions pursuant to its financial strategy of monetizing solar assets at the lowest cost of capital.

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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. As of September 30, 2014, these solar assets had a carrying value of $145.3 million and are included under solar energy systems, leased and to be leased net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.05%. 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 and administrative services for the qualifying solar energy systems. The Company was in compliance with all debt covenants as of September 30, 2014.

In connection with the pooling of the assets that were transferred to the SPE in November 2013, the Company terminated a lease pass-through arrangement with an investor. The lease pass-through arrangement had been accounted for as a borrowing and any amounts outstanding from the lease pass-through arrangement were recorded as a lease pass-through financing obligation. The balance that was then outstanding from the lease pass-through arrangement was $56.4 million. The Company paid the investor an aggregate of $40.2 million, and the remaining balance is to be paid over time. The remaining balance is paid using the net cash flows generated by the same assets previously leased under the lease pass-through arrangement, after payment of the principal and interest on the Solar Asset-backed Notes and expenses related to the assets and the Notes, including asset management fees, custodial fees and trustee fees, and was contractually documented as a right to participate in future cash flows of the SPE. This right to participate in future residual cash flows generated by the assets of the SPE has been disclosed as a component of other liabilities and deferred credits for the noncurrent portion and as a component of accrued and other current liabilities for the current portion under the caption participation interest. The Company accounted for the participation interest as a liability because the investor has no voting or management rights in the SPE, the participation interest would terminate upon the investor achieving a specified return and the investor has the option to put the participation interest to the Company on a specified date for the amount necessary for the investor to achieve the specified return, which would require the Company to settle the participation interest on a net basis in cash. In addition, under the terms of the participation interest, the Company has the option to purchase the participation interest from the investor for the amount necessary for the investor to achieve the specified return.

Solar Asset-backed Notes, 2014-1

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. As of September 30, 2014, these solar assets had a carrying value of $136.1 million and are included under solar energy systems, leased and to be leased net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. 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 and administrative services for the qualifying solar energy systems. The Company was in compliance with all debt covenants as of September 30, 2014.

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.

Solar Asset-backed Notes, Series 2014-2

In July 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and $41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, 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. As of September 30, 2014, these solar assets had a carrying value of $288.0 million and are included under solar energy systems, leased and to be leased net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that the Company has accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be 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 these solar assets 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 and administrative services for the qualifying solar energy systems. The Company was in compliance with all debt covenants as of September 30, 2014.

In connection with the transfer of the assets into the SPE in July 2014, the Company paid $129.3 million to fully settle the term loan obtained on June 7, 2013, as noted above. As a result, the Company recognized a loss on debt extinguishment of $1.5 million is included in other expense, net, in the condensed consolidated statements of operations.

7. VIE Fund 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 September 30, 2014, the investors had contributed an aggregate of $1,333.1 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 September 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 operations and maintenance 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 September 30, 2014, the assets of one of the funds with a carrying value of $28.0 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 VIEs assets and liabilities, after elimination of intercompany transactions and balances, in the condensed consolidated balance sheets were as follows (in thousands):

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 23,770	$ 35,141
Restricted cash	892	115
Accounts receivable net	7,746	4,802
Rebates receivable	20,849	17,351
Prepaid expenses and other current assets	603	3,831
Total current assets	53,860	61,240
Restricted cash	300	
Solar energy systems, leased and to be leased net	1,245,508	759,148
Other assets	3,256	2,777
Total assets	$ 1,302,924	$ 823,165
Liabilities		
Current liabilities:		
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	$ 6,934	$ 20,390
Current portion of deferred U.S. Treasury grant income	6,502	6,668
Accrued and other current liabilities	106	615
Customer deposits	4,066	5,291
Current portion of deferred revenue	15,684	13,754
Current portion of bank borrowings	260	251
Total current liabilities	33,552	46,969
Deferred revenue, net of current portion	237,681	206,324
Bank borrowings, net of current portion	5,340	5,482
Deferred U.S. Treasury grant income, net of current portion	172,173	180,566
Other liabilities and deferred credits	10,916	1,893
Total liabilities	$ 459,662	$ 441,234

8. 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	194,958
Net loss	(98,731)
Distributions to redeemable noncontrolling interests	(8,664)
Transfers from noncontrolling interests in subsidiaries	25,248
Redeemable noncontrolling interests arising from business acquisition	14,174
Acquisition of redeemable noncontrolling interests	(2,450)
Balance, September 30, 2014	$ 169,244

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9. 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		233,103	233,103
Stock-based compensation expense	62,799		62,799
Issuance of common stock upon exercise of stock options for cash	17,498		17,498
Issuance of common stock upon acquisition of Silevo	137,958		137,958
Issuance of restricted stock units upon acquisition of Silevo	132		132
Purchase of capped call options	(57,600)		(57,600)
Acquisition of noncontrolling interests	2,000		2,000
Net loss	(52,479)	(82,584)	(135,063)
Transfers to redeemable noncontrolling interests		(25,248)	(25,248)
Distributions to noncontrolling interests		(85,134)	(85,134)
Balance, September 30, 2014	$ 727,906	$ 226,954	$ 954,860

10. Equity Award Plans

Stock Options

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 prices and terms):

	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 $49.58)	4,416	68.72		
Exercised	(2,696)	6.49		162,645
Canceled	(1,851)	33.16		
Outstanding September 30, 2014	13,818	$ 31.16	7.59	$ 434,039
Vested and exercisable September 30, 2014	6,109	$ 8.46	6.27	$ 313,101
Vested and expected to vest September 30, 2014	12,314	$ 28.22	7.46	$ 417,841

Approximately 11.8% of the outstanding stock options had a performance feature that is required to be satisfied before the option is vested and exercisable. The aggregate intrinsic value of stock options exercised was $75.2 million and $39.9 million during the three months ended September 30, 2014 and 2013, respectively, and $162.6 million and $91.9 million during the nine months ended September 30, 2014 and 2013, respectively. The grant date fair value of stock options that vested was $12.9 million and $6.4 million during the three months ended September 30, 2014 and 2013, respectively, and $29.6 million and $16.5 million during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, there was $230.3 million and $103.0 million, respectively, of total unrecognized stock-based compensation expense related to nonvested stock options, which are expected to be recognized over the weighted-average period of 2.77 years and 2.74 years, respectively.

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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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Dividend yield	0%	0%	0%	0%
Annual risk-free rate of return	1.92%	1.74%	1.97%	1.38%
Expected volatility	83.51%	89.95%	84.51%	95.20%
Expected term (years)	6.08	6.06	6.07	6.05

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 fair value amounts):

	Restricted Stock Units	Weighted-Average Fair Value
Outstanding December 31, 2013	20	$ 25.46
Granted	582	69.79
Released	(12)	31.29
Cancelled	(8)	44.95
Outstanding September 30, 2014	582	$ 69.04
Expected to vest September 30, 2014	452	$ 68.89

The grant date fair value of RSUs released was $0.2 million and $0.1 million during the three months ended September 30, 2014 and 2013, respectively, and $0.4 million and $0.1 million during the nine months ended September 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 $2.8 million and $0.2 million for the three months ended September 30, 2014 and 2013, respectively, and $6.3 million and $0.3 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, there was $24.9 million and $0.5 million, respectively, of total unrecognized stock-based compensation expense from

RSUs, which are expected to be recognized over the weighted-average period of 3.05 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 $23.4 million and $7.7 million for the three months ended September 30, 2014 and 2013, respectively, and $62.8 million and $17.7 million for the nine months ended September 30, 2014 and 2013, respectively

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The amount of stock-based compensation expense that has been capitalized is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Capitalized under:				
Inventories	$ 44	$ 95	$ 44	$ 95
Property and equipment	1,401		4,223	
Solar energy systems, leased and to be leased	5,204	1,861	12,872	4,235

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of revenue	$ 302	$ 264	$ 1,765	$ 826
Sales and marketing	3,968	1,275	10,929	2,578
General and administrative	10,725	4,067	29,919	9,813
Research and development	1,756	114	3,047	183

11. 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.

The income tax expense for the three months ended September 30, 2014 and 2013 was determined based on the Company s estimated consolidated effective income tax rates of negative 9.19% and 0.07%, respectively. The income tax expense for the nine months ended September 30, 2014 and 2013 were determined based on the Company s estimated consolidated effective income tax rates of negative 9.07% and negative 0.06%, 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 intercompany sales between the Company s consolidated subsidiaries.

As part of the Company s asset monetization strategy, the Company has agreements to sell solar energy systems to the consolidated solar financing funds. The gain on these sales has been eliminated in the condensed consolidated financial statements because they are treated as intercompany sales. As such, income tax expense on these sales is not recognized in the condensed consolidated financial statements until the Company no longer benefits from the underlying solar energy systems; the taxes incurred are deferred and amortized over the estimated useful life of the underlying solar energy systems of 30 years. This deferral results in the recording of a prepaid tax expense, which is included in the condensed consolidated balance sheets as other assets. As of September 30, 2014 and December 31, 2013, the Company had a long-term prepaid tax expense, net of amortization, of $3.4 million and $3.7 million, respectively. The amortization of the prepaid tax expense makes-up the major component of income tax expense for each period.

As more fully discussed in Note 3, *Acquisition*, in September 2014, the Company acquired Silevo, a designer and manufacturer of high performance solar cells. The purchase consideration for the acquisition of Silevo, which comprised cash and stock including consideration payable upon Silevo attaining certain production and efficiency milestones, was $251.2 million. The Company recorded a total of $119.0 million of intangible assets and $143.7 million of goodwill as a result of the acquisition. For GAAP purposes, the intangible assets are being amortized over a weighted-average life of approximately ten years. The goodwill associated with this acquisition is not deductible for income tax purposes. The Company also recorded $23.7 million of long-term net deferred tax liabilities that were primarily related to the acquired intangible assets and net operating losses, which provide the Company with a source of future taxable income. The recording of the deferred tax liabilities triggered the release of $23.7 million of deferred tax asset valuation allowances, which was accounted for outside of the purchase accounting for Silevo and was recognized as a benefit of income taxes in the third quarter of 2014. The deferred tax liabilities supporting the realizability of these deferred tax assets will reverse in the same period and jurisdiction and are of the same character as the temporary differences that gave rise to these deferred tax assets.

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Uncertain Tax Positions

The Company is subject to taxation and files income tax returns in the U.S. and 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 remain subject to audit.

12. Related Party Transactions

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Revenue:				
Solar energy systems sales to related parties	$	$	$ 2,479	$ 17
Expenditures:				
Purchases of inventories from related parties	$ 1,113	$ 975	$ 3,083	$ 975
Referral fees paid or payable to a related party (included in sales and marketing expense)	$	$ 25	$ 92	$ 25

Related party balances

	September 30, 2014	December 31, 2013
Due from related parties (included in accounts receivable)	$ 30	$ 9
Due to related parties (included in accounts payable)	$ 940	$ 427
Due to related parties (included in customer deposits)	$	$ 83
Deferred revenue from related parties (included in current portion of deferred revenue)	$	$ 831

13. 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 and vehicles under noncancelable operating leases.

Indemnification and Guaranteed Returns

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 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.

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 September 30, 2014, the fund investor has 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 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. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

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 is reviewing the claims asserted by the stockholders and is unable to estimate the possible loss, if any, associated with this lawsuit.

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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.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income (loss) attributable to stockholders	$ 19,236	$ (2,103)	$ (52,479)	$ (82,483)
Net income (loss) attributable to common stockholders, basic	$ 19,236	$ (2,103)	$ (52,479)	$ (82,483)
Net income (loss) attributable to common stockholders, diluted	$ 19,236	$ (2,103)	$ (52,479)	$ (82,483)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic	93,323,687	79,918,110	92,335,789	77,228,677
Dilutive effect of common stock options	5,993,333			
Dilutive effect of restricted stock units	63,377			
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, diluted	99,380,397	79,918,110	92,335,789	77,228,677
Net income (loss) per share attributable to common stockholders, basic	$ 0.21	$ (0.03)	$ (0.57)	$ (1.07)
Net income (loss) per share attributable to common stockholders, diluted	$ 0.19	$ (0.03)	$ (0.57)	$ (1.07)

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Common stock warrants				690,829
Common stock options	4,888,417	14,090,133	14,459,576	14,564,924
Restricted stock units	174,342	23,029	194,177	19,026
Convertible senior notes	3,794,860		3,751,722	

15. Subsequent Events

Solar Bonds Program

On October 15, 2014, the Company commenced the Solar Bonds program under which the Company plans to issue to the general public senior unsecured obligations of the Company that are structurally subordinate to the indebtedness and other liabilities of the Company s subsidiaries. The initial series of Solar Bonds have investment terms ranging from one to seven years and provide interest to the holders at fixed rates between 2.00% to 4.00% per annum. The Company has initially offered up to $40.0 million in aggregate principal amount of Solar Bonds.

Exercise of Option on the Convertible Senior Notes by the Initial Purchasers

On October 10, 2014, the Company issued an additional $66.0 million in aggregate principal amount of the 1.625% convertible senior notes due on November 1, 2019, pursuant to the exercise of an option by the initial purchasers to acquire additional convertible senior notes.

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In connection with the issuance of the additional convertible senior notes, the Company paid $7.6 million to enter into an additional capped call option agreement to reduce the potential dilution to holders of the Company s common stock upon conversion of the additional convertible senior notes. This additional capped call option agreement has the same terms as the initial capped call option agreement.

New Financing Funds

In October 2014, the Company formed two new financing funds with new and existing fund investors with an aggregate financing commitment of $113.0 million.

Pay-Down of Revolving Credit Facility

In October 2014, the Company paid-down an aggregate of $83.5 million of the outstanding principal of the revolving credit facility.

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. We have recently begun offering consumer loans to finance the purchase of solar energy systems by our customers.

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 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.

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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 based 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.

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 generally include the incremental cost of contract administration, referral fees and sales commissions, 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 $70.1 million and $37.8 million for the three months ended September 30, 2014 and 2013, respectively, and $233.8 million and $112.0 million for the nine months ended September 30, 2014 and 2013, respectively. However, after applying the required allocations to arrive at the consolidated net income (loss) attributable to our stockholders, the result was an income of $19.2 million and a loss of $2.1 million for the three months ended September 30, 2014 and 2013, respectively, and a loss of $52.5 million and $82.5 million for the nine months ended September 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.

On September 23, 2014, we acquired Silevo, Inc., or Silevo. Silevo is a designer and manufacturer of high performance solar cells with operations primarily in the United States, where it carries-out research and development activities as well as sales of products, and China, where it was the managing partner in a joint venture that manufactures the solar cells for the subsequent contract manufacturing of high performing solar panels. The acquisition will enable us to manage our supply chain and control the design and manufacturing of solar cells that are a key component of our solar energy systems, as well as enable us to utilize and combine Silevo s technology with economies of scale to achieve significant cost reductions.

In September 2014, Silevo entered into an amended and restated research and development alliance agreement, or the Riverbend Agreement, with the Research Foundation for the State University of New York, or the Foundation, for the construction of an approximately 1,000,000 square foot manufacturing facility with the capacity to produce at least 1 gigawatt of solar panels annually on an approximately 88.24 acre site located in Buffalo, New York, or the Manufacturing Facility. Under the terms of the Riverbend Agreement, the Foundation will construct the Manufacturing Facility and install certain utilities and other improvements, with participation by us as to the design and construction of the Manufacturing Facility, and acquire certain manufacturing equipment designated by us to be used in the Manufacturing Facility. The Foundation will cover construction costs related to the Manufacturing Facility and manufacturing equipment, in each case up to a maximum funding allocation from the State of New York, and we will be responsible for any construction and equipment costs in excess of such amounts. The Foundation will own the Manufacturing Facility and manufacturing equipment. Following completion of the Manufacturing Facility, we will lease the Manufacturing Facility from the Foundation for an initial period of 10 years for $1 per year plus utilities, and the Foundation will grant us the right to use the manufacturing equipment during the initial lease term at no charge.

In addition to its other obligations under the Riverbend Agreement, we must (i) use our best commercially reasonable efforts to commission the manufacturing equipment within three months of the Manufacturing Facility completion and reach full production output within three months thereafter, (ii) employ 1,460 high-tech jobs for the manufacturing operation at the Manufacturing Facility for five years after the Manufacturing Facility completion, (iii) employ at least 2,000 other personnel in the State of New York to support downstream solar panel sales and installation for five years after the Manufacturing Facility completion, (iv) work with the Foundation to attract 1,440 additional support contractor and supplier jobs in the State of New York following full production, (v) spend or incur approximately $5 billion in combined capital, operational expenses and other costs in the State of New York during the 10 year period following full production, (vi) make reasonable efforts to provide first consideration to New York-based suppliers, (vii) invest and spend in manufacturing operations at a level that ensures competitive product costs for at least five years from full production, and (viii) negotiate in good faith with the Foundation on an exclusive first opportunity basis for 120 days before entering into any agreement for additional solar panel manufacturing capacity that Silevo may wish to develop during the term of the agreement. If we fail in any year over the course of the 10-year term to meet our specified investment and job creation obligations, as described above, we would be obligated to pay a program payment of $41.2 million to the Foundation in any such year. In addition, we are subject to other events of default, including breach of these program payments and certain insolvency events, that would lead to the acceleration of all of the then unpaid program payments by us to the Foundation.

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.

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.

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

	September 30, 2014	December 31, 2013
Cumulative customers	168,339	92,998

Energy Contracts

We define an energy contract as a residential, commercial or government lease, power purchase agreement or customer loan 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.

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

	September 30, 2014	December 31, 2013
Cumulative energy contracts	156,049	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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Megawatts deployed	137	78	326	177
Cumulative megawatts deployed	894	464	894	464

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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 represent our estimate of the sum of the cash payments that our customer is obligated to pay under our agreements. When calculating nominal contracted payments, we include only those leases and power purchase agreements for solar energy systems already deployed and in backlog over the remaining term of such contracts. Backlog represents the aggregate megawatt capacity of solar energy systems not yet deployed as of the date specified pursuant to energy contracts and contracts for solar energy system direct sales executed as of such date. 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):

	September 30, 2014	December 31, 2013
Estimated aggregate nominal contracted payments remaining	$ 4,114,892	$ 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. No amounts attributed to the expected renewal period are included in the Estimated aggregate nominal contracted payments remaining as detailed in the above table.

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Critical Accounting Policies and Estimates

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

Eligibility for U.S. Treasury Grants

We continue to be eligible to receive U.S. Treasury grants on our solar energy systems in accordance with the safe harbor provision under Section 1603 of the American Recovery and Reinvestment Act of 2009, as amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of December 2010. This safe harbor allows continued eligibility to receive U.S. Treasury grants on our solar energy systems for which we had (i) spent at least 5% of the value of the system, including expenditures incurred on solar energy system components, prior to the end of 2011 and (ii) completed the application for the U.S. Treasury grants by September 30, 2012, even for the solar energy systems not placed in service by that date.

As of September 30, 2014, we had placed in service the majority of our solar energy systems that were eligible for U.S. Treasury grants, and we had received substantially all of the U.S. Treasury grants that we had applied for. We expect to receive an additional $16.8 million of U.S. Treasury grants in future periods that have not yet been approved by the U.S. Treasury Department and that have not yet been recorded by us in our condensed consolidated financial statements.

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 September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Revenue:				
Operating leases and solar energy systems incentives	$ 52,178	$ 24,796	$ 124,431	$ 60,493
Solar energy systems and component sales	6,165	23,804	58,792	56,044
Total revenue	58,343	48,600	183,223	116,537
Cost of revenue:				
Operating leases and solar energy systems incentives	25,728	8,619	62,533	21,165
Solar energy systems and component sales	6,640	26,128	57,057	65,849
Total cost of revenue	32,368	34,747	119,590	87,014
Gross profit	25,975	13,853	63,633	29,523
Operating expenses:				
Sales and marketing	56,472	24,310	159,093	63,533

General and administrative	39,608	21,062	111,006	59,090
Research and development	4,235	364	9,158	973
Total operating expenses	100,315	45,736	279,257	123,596
Loss from operations	(74,340)	(31,883)	(215,624)	(94,073)
Interest expense, net	16,321	5,781	37,192	17,521
Other expense, net	2,961	123	4,293	425
Loss before income taxes	(93,622)	(37,787)	(257,109)	(112,019)
Income tax (provision) benefit	23,506	(23)	23,315	57
Net loss	(70,116)	(37,810)	(233,794)	(111,962)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(89,352)	(35,707)	(181,315)	(29,479)
Net income (loss) attributable to stockholders	$ 19,236	$ (2,103)	$ (52,479)	$ (82,483)
Net income (loss) per share attributable to common stockholders:				
Basic	$ 0.21	$ (0.03)	$ (0.57)	$ (1.07)
Diluted	$ 0.19	$ (0.03)	$ (0.57)	$ (1.07)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	93,323,687	79,918,110	92,335,789	77,228,677
Diluted	99,380,397	79,918,110	92,335,789	77,228,677

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Three months ended September 30, 2014 and 2013

Revenue

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Change $	%
Operating leases and solar energy systems incentives	$ 52,178	$ 24,796	27,382	110
Solar energy systems and component sales	6,165	23,804	(17,639)	(74)
Total revenue	$ 58,343	$ 48,600	9,743	20

Total revenue increased by $9.7 million, or 20%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Operating leases and solar energy systems incentives revenue increased by $27.4 million, or 110%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase was attributable to the increase in solar energy systems placed in service under leases and power purchase agreements between October 1, 2013 and September 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 September 30, 2014 increased by 96% as compared to the in-period average during the three months ended September 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 October 1, 2013 to September 30, 2014 increased from 50% to 55%, which increased the effect of seasonality in the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Revenue from sales of solar energy systems and components decreased by $17.6 million, or 74%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This decrease was primarily due to a $7.8 million decrease in revenue from sales to government entities, a $5.1 million decrease in revenue from long-term solar energy system sales contracts recognized on the percentage-of-completion basis, a $4.9 million decrease in revenue from sales to commercial customers, and a $0.8 million decrease in revenue from sales of energy efficiency products and services. These decreases were partially offset by a $1.1 million increase in revenue from system sales to residential customers.

Cost of Revenue, Gross Profit and Gross Profit Margin

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Change $	%
Operating leases and solar energy systems incentives	$ 25,728	$ 8,619	17,109	199

Gross profit of operating leases and solar energy systems incentives	26,450	16,177	10,273	64
Gross profit margin of operating leases and solar energy systems incentives	51%	65%		
Solar energy systems and component sales	$ 6,640	$ 26,128	(19,488)	(75)
Gross loss of solar energy systems and component sales	(475)	(2,324)	1,849	80
Gross loss margin of solar energy systems and component sales	(8)%	(10)%		
Total cost of revenue	$ 32,368	$ 34,747	(2,379)	(7)
Total gross profit	25,975	13,853	12,122	88
Total gross profit margin	45%	29%		

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Cost of operating leases and solar energy systems incentives revenue increased by $17.1 million, or 199%, for the three months ended September 30, 2014 as compared to the three months ended September 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. Additionally, we incurred $5.7 million of increased period costs primarily related to warranty, operations and maintenance costs for solar energy systems under leases and power purchase agreements, and our expensing of cost associated with cancelled contracts by customers prior to the completion of the solar energy system installation. We also incurred $2.1 million in the three months ended September 30, 2014 related to the amortization of the intangible assets from the Zep Solar acquisition in the fourth quarter of 2013.

Cost of solar energy systems sales decreased by $19.5 million, or 75%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, in line with the decrease in revenue. However, the increase in our deployment of solar energy systems resulted in the allocation of overhead costs over more megawatts installed. In addition, the percentage of revenue from residential systems increased, which generally have higher gross margins. These factors contributed to the gross margin improving slightly from a gross loss margin of 10% to a gross loss margin of 8%.

Operating Expenses

	Three Months Ended September 30,		Change	
(Dollars in thousands)	**2014**	**2013**	**$**	**%**
Sales and marketing	$ 56,472	$ 24,310	32,162	132
General and administrative	39,608	21,062	18,546	88
Research and development	4,235	364	3,871	1,063
Total operating expenses	$ 100,315	$ 45,736	54,579	54

Sales and marketing expense increased by $32.2 million, or 132%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase was primarily due to more expansive sales and marketing efforts, which have resulted in increased customers and energy contracts. 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 192% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $21.7 million and facilities and operations costs increased by $3.1 million. In addition, promotional marketing costs increased by $4.5 million, and expenses from the amortization of marketing-related intangible assets, acquired through the Paramount Energy and Zep Solar acquisitions, increased by $2.4 million. 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 $18.5 million, or 88%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase was primarily due to the increase in the average number of personnel in general and administrative departments, which grew by 96% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $14.8 million, including $6.7 million related to stock-based compensation, and facilities and operations costs increased by $2.1 million. In addition, in the three months ended September 30, 2014, the Company incurred $3.5 million for professional services and the termination of a pre-existing contract related to the Silevo acquisition. These increases were partially offset by $4.8 million of insurance recoveries of legal fees expensed in prior periods.

Research and development expense increased by $3.9 million, or 1,063%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This was primarily due to the research and development activities related to solar energy panel mounting hardware by Zep Solar, which we acquired in the fourth quarter of 2013.

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Other Income and Expenses

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Change $	%
Interest expense, net	$ 16,321	$ 5,781	10,540	182
Other expense, net	2,961	123	2,838	2307
Total interest and other expenses, net	$ 19,282	$ 5,904	13,378	227

Interest expense, net, increased by $10.5 million, or 182%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The interest expense, net, related to our cash borrowings increased by $10.8 million as a result of the higher average carrying balances on our borrowing facilities and the accelerated amortization of deferred financing costs related to our credit facilities for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increase for interest expense, net, related to our cash borrowings was slightly offset by a decrease of interest expense, net, related to lease pass-through financing obligations mainly due to lower average carrying balances for the financing obligations for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Other expense, net, increased by $2.8 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increase in other expense, net, was mainly related to a $2.1 million loss on extinguishment of our working capital financing and term loan.

Provision for Income Taxes

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Change $	%
Income tax benefit (provision)	$ 23,506	$ (23)	23,529	102,300

In the three months ended September 30, 2014, we recognized an income tax benefit of $23.5 million arising from the release of deferred tax asset valuation allowances in connection with our acquisition of Silevo. The release of the deferred tax asset valuation allowances was triggered by the recognition of $23.7 million of long-term net deferred tax liabilities that were primarily related to the intangible assets and net operating losses acquired.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Change $	%
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	$ (89,352)	$ (35,707)	(53,645)	150

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests represents mainly 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.

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The net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended September 30, 2014 was $89.4 million while the net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended September 30, 2013 was $35.7 million. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended September 30, 2014 was primarily due to the $95.5 million loss allocation from financing funds into which we were selling or contributing assets. This loss allocation was partially offset by a $6.1 million income allocation related to financing funds that were fully funded and that we were not selling or contributing additional assets. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended September 30, 2013 was mainly due to $36.3 million losses allocated to investors in funds into which we sold and contributed assets. This loss allocation was partially offset by a $0.6 million income allocation related to financing funds that were fully funded and that we were not selling or contributing additional assets.

Nine months ended September 30, 2014 and 2013

Revenue

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2014**	**2013**	**$**	**%**
Operating leases and solar energy systems incentives	$ 124,431	$ 60,493	63,938	106
Solar energy systems sales	58,792	56,044	2,748	5
Total revenue	$ 183,223	$ 116,537	66,686	57

Total revenue increased by $66.7 million, or 57%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Operating leases and solar energy systems incentives revenue increased by $63.9 million, or 106%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was attributable to the increase in solar energy systems placed in service under leases and power purchase agreements between October 1, 2013 and September 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 nine months ended September 30, 2014 increased by 100% as compared to the in-period average during the nine months ended September 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 October 1, 2013 to September 30, 2014 increased from 48% to 55%, which increased the effect of seasonality in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Revenue from sales of solar energy systems and components increased by $2.7 million, or 5%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was primarily due to $9.0 million of revenue from sales of Zep Solar products in the nine months ended September 30, 2014, an $18.5 million increase in revenue from long-term solar energy system sales contracts recognized on the percentage-of-completion basis, a $4.7 million increase in revenue from system sales to residential customers and a

$1.0 million increase in revenue from sales to commercial customers. These increases were partially offset by a $24.6 million decrease in revenue from sales to government entities, a $5.0 million decrease in revenue from sales of energy efficiency products and services and a $1.4 million decrease in revenue from installations of electric vehicle charging stations.

Cost of Revenue, Gross Profit and Gross Profit Margin

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2014**	**2013**	**$**	**%**
Operating leases and solar energy systems incentives	$ 62,533	$ 21,165	41,368	195
Gross profit of operating leases and solar energy systems incentives	61,898	39,328	22,570	57
Gross profit margin of operating leases and solar energy systems incentives	50%	65%		
Solar energy systems sales	$ 57,057	$ 65,849	(8,792)	(13)
Gross profit (loss) of solar energy systems sales	1,735	(9,805)	11,540	118
Gross profit (loss) margin of solar energy systems sales	3%	(17)%		
Total cost of revenue	$ 119,590	$ 87,014	32,576	37
Total gross profit	63,633	29,523	34,110	116
Total gross profit margin	35%	25%		

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Cost of operating leases and solar energy systems incentives revenue increased by $41.4 million, or 195%, for the nine months ended September 30, 2014 as compared to the nine months ended September 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. Additionally, we incurred $14.1 million of increased period costs primarily related to warranty, operations and maintenance costs for solar energy systems under leases and power purchase agreements, and expensing of cost associated with cancelled contracts by customers prior to the completion of the solar energy system installation. We also incurred $5.1 million in the nine months ended September 30, 2014 related to the amortization of the intangible assets from the Zep Solar acquisition in the fourth quarter of 2013.

Cost of solar energy systems sales decreased by $8.8 million, or 13%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in our deployment of solar energy systems resulted in the allocation of overhead costs over more megawatts installed. In addition, the percentage of revenue from residential systems increased, which generally have higher gross margins, and we incurred low or negative gross margins on large commercial and government sales in the nine months ended September 30, 2013. Furthermore, our sales of Zep Solar products, in the nine months ended September 30, 2014, had higher gross margins. These factors contributed to the gross margin improving from a gross loss margin of 17% to a gross profit margin of 3%.

Operating Expenses

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2014**	**2013**	**$**	**%**
Sales and marketing	$ 159,093	$ 63,533	95,560	150
General and administrative	111,006	59,090	51,916	88
Research and development	9,158	973	8,185	841
Total operating expenses	$ 279,257	$ 123,596	155,661	126

Sales and marketing expense increased by $95.6 million, or 150%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was primarily due to more expansive sales and marketing efforts, which have resulted in increased customers and energy contracts. 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 nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $59.6 million, and facilities and operations costs increased by $7.9 million. In addition, promotional marketing costs increased by $17.4 million, and expenses from the amortization of marketing-related intangible assets, acquired through the Paramount Energy and Zep Solar acquisitions, increased by $8.2 million. 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 $51.9 million, or 88%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was primarily due to the increase in the average number of personnel in general and administrative departments, which grew by 62% for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $37.9 million, including $20.1 million related to stock-based compensation, and facilities and operations costs increased by $4.4 million. In addition, professional services fees increased by $8.6 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increased audit fees, increased financing activities and the Silevo acquisition, which was partially offset by insurance recoveries of certain legal fees.

Research and development expense increased by $8.2 million, or 841%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This was primarily due to the research and development activities related to solar energy panel mounting hardware by Zep Solar, which we acquired in the fourth quarter of 2013.

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Other Income and Expenses

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013	Change $	%
Interest expense, net	$ 37,192	$ 17,521	19,671	112
Other expense, net	4,293	425	3,868	910
Total interest and other expenses, net	$ 41,485	$ 17,946	23,539	131

Interest expense, net, increased by $19.7 million, or 112%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The interest expense, net, related to our cash borrowings increased by $21.0 million as a result of the higher average carrying balances on our borrowing facilities and the accelerated amortization of deferred financing costs related to our credit facilities for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase for interest expense, net, related to our cash borrowings was offset by a decrease of $1.3 million in interest expense, net, related to lease pass-through financing obligations mainly due to lower average carrying balances for the financing obligations for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2014.

Other expense, net, increased by $4.3 million, or 910%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in other expense, net, was mainly related to a $2.1 million loss on extinguishment of our working capital financing and term loan in the nine months ended September 30, 2014 and a $0.8 million increase of franchise taxes for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Provision for Income Taxes

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013	Change $	%
Income tax benefit (provision)	$ 23,315	$ 57	23,258	40,804

In the nine months ended September 30, 2014, we recognized an income tax benefit of $23.3 million arising from the release of deferred tax asset valuation allowances in connection with our acquisition of Silevo. The release of the deferred tax asset valuation allowances was triggered by the recognition of $23.7 million of long-term net deferred tax liabilities that were primarily related to the intangible assets and net operating losses acquired.

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

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013	Change $	%
Net (loss) income attributable to noncontrolling interests and redeemable noncontrolling interests	$ (181,315)	$ (29,479)	(151,836)	515

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests represents mainly 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 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.

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The net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the nine months ended September 30, 2014 was $181.3 million while the net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the nine months ended September 30, 2013 was $29.5 million. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the nine months ended September 30, 2014 was primarily due to the $204.0 million loss allocation from financing funds into which we were selling or contributing assets. This loss allocation was partially offset by a $10.8 million income allocation related to financing funds that were fully funded and that we were not selling or contributing additional assets. Additionally, $11.9 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 that included $8.5 million of income allocation due to an adjustment in 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 loss allocation to noncontrolling interests and redeemable noncontrolling interests for the nine months ended September 30, 2013 was mainly due to $30.8 million of losses allocated to investors in funds into which we sold and contributed assets offset by $1.3 million of income allocated to investors in funds that were fully funded.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated cash flows (in thousands):

	Nine Months Ended September 30,	
	2014	**2013**
Net cash (used in) provided by operating activities	$ (82,332)	$ 160,650
Net cash used in investing activities	(858,402)	(494,987)
Net cash provided by financing activities	1,060,170	307,243
Net increase (decrease) in cash and cash equivalents	$ 119,436	$ (27,094)

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, debt issuances and cash generated from our operations. As further described below under Financing Activities Debt and Financing Fund Commitments, as of September 30, 2014, we had $116.5 million of available commitments from our fund investors that would be available to be drawn without violating any covenants under our credit facilities through our asset monetization strategy and $662.9 million of unused borrowing capacity available under our debt agreements which may be drawn without violating any covenants under our credit facilities, including $344.0 million of available capacity under a facility for which we are currently re-evaluating the terms.

While we had a net loss for the nine months ended September 30, 2014, we believe that our existing cash and cash equivalents, short-term investments, funds available under our debt agreements 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. However, if, in the future, we are unable to comply with all of the covenants contained in our debt agreements or we are unable to obtain waivers of any non-compliance, then we might be considered in default under our debt agreements. In that circumstance, the payments due under our debt agreements could be accelerated, which would negatively impact our liquidity and capital resources. Under the terms of our

Revolving Credit Facility, we are subject to the following financial covenants:

Interest Coverage Ratio: We are obligated to maintain an interest coverage ratio of 1.5-to-1 as of the end of each fiscal quarter. The interest coverage ratio is measured by dividing (a) an amount equal to the excess of (i) our trailing 12-month consolidated gross profit over (ii) 20% of our trailing 12-month consolidated general and administrative expenses by (b) our unconsolidated trailing 12-month cash interest charges.

Unencumbered Liquidity: We are obligated to maintain at least $50.0 million of unencumbered liquidity as of the end of each month. Unencumbered liquidity is defined as our average daily cash and cash equivalents, excluding certain of our subsidiaries.

Operating Activities

In the nine months ended September 30, 2014, we utilized $82.3 million in net cash from operations. This cash outflow primarily resulted from a net loss of $233.8 million, reduced by non-cash items such as depreciation and amortization of $66.6 million, stock-based compensation of $45.7 million and interest on lease pass-through financing obligations of $8.7 million and increased by a reduction in lease pass-through financing obligation of $36.4 million and a change in deferred income taxes of $23.7 million. The cash outflow also increased in part due to an increase in restricted cash of $3.8 million, an increase in rebates receivable of $6.2 million, an increase in inventories of $66.3 million, an increase in prepaid expenses and other current assets of $15.2 million and a decrease in accrued and other liabilities of $17.3 million. This cash outflow was offset by an increase in deferred revenue under our joint venture and lease pass-through structures of $128.1 million relating to upfront lease payments received from customers, 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 $80.7 million.

In the nine months ended September 30, 2013, we generated $160.7 million in net cash from operations. This cash inflow primarily resulted from an increase in deferred revenue under our joint venture and lease pass-through structures of $143.4 million relating to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments, an increase in accounts payable of $70.8 million and an increase in accrued liabilities of $65.8 million. The cash inflow was offset in part by an increase in accounts receivable of $8.2 million, an increase in prepaid expenses and other current assets of $17.4 million, an increase in rebates receivable of $1.7 million, an increase in inventories of $3.1 million and a net loss of $112.0 million, reduced by non-cash items such as depreciation and amortization of $25.7 million, stock-based compensation of $13.4 million and interest on lease pass-through financing obligations of $10.0 million and increased by a reduction in lease pass-through financing obligation of $25.5 million.

Investing Activities

Our investing activities consisted primarily of capital expenditures in solar energy systems, leased and to be leased.

In the nine months ended September 30, 2014, we used $858.4 million in investing activities. Of this amount, we used $793.7 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and $13.4 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 $15.8 million in promissory notes receivable from and other advances to a third-party and $46.5 million in short-term investments in highly rated corporate debt securities. These expenditures were offset by $1.9 million net cash inflow from the acquisition of Silevo and $9.6 million from sales of short-term investments.

In the nine months ended September 30, 2013, we used $495.0 million in investing activities. Of this amount, we used $485.4 million on the design, acquisition and installation of solar energy systems under operating leases with our customers. We also used $5.8 million in the acquisition of vehicles, office equipment, leasehold improvements and furniture and invested $3.8 million in the acquisition of Paramount.

Financing Activities

In the nine months ended September 30, 2014, we generated $1,060.2 million from financing activities. We received $488.7 million, net of issuance costs, from the issuance of convertible senior notes, and in conjunction with this issuance, we paid $57.6 million to enter into a capped call option agreement. We received $256.1 million, net of lender fees, from long-term debt and repaid $246.7 million of long-term debt. We received $263.6 million, net of issuance costs, from the issuance of solar asset-backed notes and repaid $4.0 million related to these solar asset-backed notes. We also repaid $1.2 million of our capital lease obligation. We received $0.3 million from the U.S. Treasury Department for grants associated with solar energy systems that we had leased to customers. We received $30.1 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 $428.1 million from proceeds from investments by various fund investors in our joint ventures and paid distributions to fund investors of $107.3 million. Additionally, we received $17.5 million from the issuance of common stock upon the exercise of stock options for cash.

In the nine months ended September 30, 2013, we generated $307.2 million from financing activities. We received $57.2 million, net of fees, from long-term debt. We repaid $24.7 million of long-term debt and $1.6 million of our capital lease obligation. We received an additional $123.8 million from U.S. Treasury grants associated with our solar energy systems that we had leased to customers. We also received $31.2 million from fund investors in our lease pass-through financing funds and $221.2 million from fund investors in our joint ventures. We paid distributions to fund investors of $117.0 million. Additionally, we received $9.4 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.

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Debt and Financing Fund Commitments

There were no material changes to our debt or financing fund commitments during the nine months ended September 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.

Convertible Senior Notes:

In September 2014, we issued $500.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019. The net proceeds from the issuance, after deducting transaction costs, were $488.8 million. We incurred $11.2 million of debt issuance costs in connection with the issuance of the convertible senior notes, which were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 11.9720 shares of our common stock, which is equivalent to an initial conversion price of $83.53 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, we 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 15.8629 shares for each $1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of $63.04 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined events. We were in compliance with all debt covenants as of September 30, 2014.

On October 10, 2014, we issued an additional $66.0 million in aggregate principal amount of the 1.625% convertible senior notes due on November 1, 2019, pursuant to the exercise of an option by the initial purchasers.

In connection with the issuance of the additional convertible senior notes, we paid $7.6 million to enter into an additional capped call option agreement to reduce the potential dilution to holders of our common stock upon conversion of the additional convertible senior notes. This additional capped call option agreement has substantially the same terms as the initial capped call option agreement.

Solar Bonds Program:

On October 15, 2014, we commenced issuing Solar Bonds, which are our senior unsecured obligations that are structurally subordinate to the indebtedness and other liabilities of our subsidiaries. The initial series of Solar Bonds have investment terms ranging from one to seven years and provide interest to the holders at fixed rates between 2.00% to 4.00% per annum. We have initially offered up to $40.0 million in aggregate principal amount of Solar Bonds.

Working Capital Financing:

In July 2014, we paid $10.0 million to fully settle the outstanding balance of and terminate our working capital financing facility.

Term Loans:

In January 2014, one of our existing term loan agreements was amended to increase the maximum term loan availability from $100.0 million to $158.0 million. In July 2014, we paid $129.3 million to fully settle the outstanding balance of and terminate the term loan.

Through the Silevo acquisition, we assumed a pre-existing term loan with an outstanding principal balance of $9.1 million. The term loan bears interest at a fixed rate of 7.8% per annum. The term loan is a liability of one of our subsidiaries only and is non-recourse to our other subsidiaries. We were in compliance with all debt covenants as of September 30, 2014.

On February 4, 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%. 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. As of September 30, 2014, we had $82.6 million of principal outstanding under the term loan, and we were in compliance with all debt covenants.

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%. 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. As of September 30, 2014, we had $30.1 million of principal outstanding under the term loan, and we were in compliance with all debt covenants.

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 SPE is wholly owned by us. 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 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 debt covenants as of September 30, 2014.

In July 2014, we pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and $41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, backed by these solar assets to certain investors. The SPE is wholly owned by us. The Solar Asset-backed Notes were issued at a discount of 0.01%. The Solar Asset-backed Notes, Series 2014-2, Class A, bear interest at a fixed rate of 4.02% per annum while the Solar Asset-backed Notes, Series 2014-2, Class B, bear interest at a fixed 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 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 debt covenants as of September 30, 2014.

Financing Fund Commitments:

In January 2014, the contractual terms of an existing financing fund were amended to increase the financing commitment by 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 financing commitment under the lease pass-through financing arrangement was $100.0 million and was increased to $249.2 million in July 2014. In April and May 2014, we formed three new financing funds, one with a new fund investor and two with existing fund investors, to obtain an aggregate financing commitment of $240.0 million. In July 2014, we formed a new financing fund with an existing fund investor to obtain a financing commitment of $20.0 million. In August 2014, we formed a new financing fund with an existing fund investor to obtain a financing commitment of $75.0 million. In October 2014, we formed two new financing funds with new and existing fund investors to obtain an aggregate financing commitment of $113.0 million.

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 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. In addition, we have entered into capped call option agreements to reduce the potential dilution to holders of our common stock upon conversion of our convertible senior notes.

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 $0.7 million and $0.3 million for the nine months ended September 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 September 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 September 30, 2014, our chief executive officer and chief financial officer concluded that, as a result 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, our disclosure controls and procedures were not effective as of September 30, 2014.

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 nine months ended September 30, 2014, we began implementing and evaluating new internal controls over financial reporting and disclosure controls and procedures. Though management is still evaluating the design of these new controls and 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 controls and procedures to appropriate tests, in order to determine whether they are operating effectively. Management, with oversight from the Audit Committee, is committed to the remediation of known material weaknesses as expeditiously as possible.

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.

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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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 11, 2014, a derivative stockholder action was 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. At this time, we are unable to provide an estimate of the amount of any additional loss in excess of the amounts already recognized.

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 September 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, utility rate structures, interconnection procedures, 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.

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.

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

Forty-three states, Puerto Rico 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, the imposition of new charges that only or disproportionately impact customers that utilize net metering, or reductions in the amount or value of credit that customers receive through 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 caps on net metering in California and other jurisdictions are reached, or if the amount or value 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.

Regulatory limitations associated with technical considerations may significantly limit our ability to sell electricity from our solar energy systems in certain markets.

Regulatory limits associated with technical considerations may curb our growth in certain key markets. For example, the Federal Energy Regulatory Commission, in promulgating small generator interconnection procedures, recommended limiting customer-sited intermittent generation resources, such as our solar energy systems, to a certain percentage of peak load on a given electrical feeder circuit. Similar limits have been adopted by various states and could constrain our ability to market to customers in certain geographic areas where the concentration of solar installations exceeds the limit. For example, Hawaiian electric utilities have adopted certain policies that limit distributed electricity generation in certain geographic areas. While these limits have constrained our growth in certain parts of Hawaii, policy developments in Hawaii generally have allowed distributed electricity generation penetration beyond the electric utility-imposed limitations. Furthermore, in certain areas, we benefit from policies that allow for expedited or simplified procedures related to connecting solar energy systems to the power grid. If such procedures are changed or cease to be available, our ability to sell the electricity generated by solar energy systems we install may be adversely impacted. As adoption of solar distributed generation increases along with the operation of large scale solar generation in key markets such as California, the amount of solar energy being fed into the power grid will surpass the amount planned for relative to the amount of aggregate demand. Some utilities claim that within several years, solar generation resources may reach a level capable of causing an over-generation situation that could require some solar generation resources to be curtailed to maintain operation of the grid. The adverse effects of such curtailment without compensation could adversely impact our business, results of operations and future growth.

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 and exclusion of solar energy systems from property tax assessments. We rely on these governmental rebates, tax credits and other financial incentives to lower our cost of capital and to incent fund 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 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 September 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 September 30, 2014, approximately 98% of new customers chose to enter into financed lease or power purchase agreements rather than buying a solar energy system for cash.

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. In some states and utility territories, third parties that own solar energy systems are limited in the way that they may deliver solar energy to their customers. In jurisdictions such as Arizona, Florida, Georgia, Iowa, Kentucky, North Carolina and Oklahoma and in the service territory of the Los Angeles Department of Water and Power, laws have been interpreted to prohibit the sale of electricity pursuant to our standard power purchase agreement, leading us and other solar energy system providers that utilize third-party ownership arrangements to offer leases exclusively in lieu of power purchase agreements, in addition to customer ownership. Imposition of such limitations in additional jurisdictions or reductions in, or eliminations of, incentives for third-party owned systems could reduce demand for our systems, could 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.

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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 two to 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 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.

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 September 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 the 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.

On September 23, 2014, we acquired Silevo, Inc., a solar panel technology and manufacturing company. Though we believe that panels manufactured by our company are exempt from these tariffs, as proposed, we expect to continue to rely on solar panels produced by our other existing suppliers for the near future. In addition, it is possible that system components purchased from other 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.

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.

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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;

- 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.

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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.

The terms of our agreement with the Research Foundation for the State University of New York pertaining to the construction of the Buffalo Riverbend Manufacturing Facility, among other things, require us to comply with a number of covenants during the term of the agreement. Any failure to comply with these covenants could obligate us to pay significant amounts to the Foundation and result in termination of the agreement.

In September 2014, our newly acquired subsidiary, Silevo, entered into an amended and restated research and development alliance agreement, referred to as the Riverbend Agreement, with the Research Foundation for the State University of New York, referred to as the Foundation, for the construction of an approximately 1,000,000 square foot manufacturing facility capable of producing 1-gigawatt of solar panels annually on an approximately 88.24 acre site located in Buffalo, New York, referred to as the Manufacturing Facility. In October 2014, we agreed to extend the time period in which the Foundation is to enter into reasonably acceptable construction contracts to December 15, 2014.

Under the terms of the Riverbend Agreement, the Foundation will construct the Manufacturing Facility and install certain utilities and other improvements, with participation by us as to the design and construction of the Manufacturing Facility, and acquire certain manufacturing equipment designated by us to be used in the Manufacturing Facility. The Foundation will cover construction costs related to the Manufacturing Facility and manufacturing equipment, in each case up to a maximum funding allocation from the State of New York, and we will be responsible for any construction and equipment costs in excess of such amounts. The Foundation will own the Manufacturing Facility and manufacturing equipment. Following completion of the Manufacturing Facility, we will lease the Manufacturing Facility from the Foundation for an initial period of 10 years for $1 per year plus utilities, and the Foundation will grant us the right to use the manufacturing equipment during the initial lease term at no charge. Currently, we estimate that we will incur capital expenses of up to $150 million in connection with the construction and commissioning of the Manufacturing Facility and the initial manufacturing equipment. We cannot assure you that these estimated capital expenses in connection with the construction and commissioning of the Manufacturing Facility and the initial manufacturing equipment will not exceed this estimated amount.

In addition to the other obligations under the Riverbend Agreement, we must (i) use our best commercially reasonable efforts to commission the manufacturing equipment within three months of Manufacturing Facility completion and reach full production output within three months thereafter, (ii) employ 1,460 high-tech jobs for the manufacturing operation at the Manufacturing Facility for five years after Manufacturing Facility completion, (iii) employ at least 2,000 other personnel in the State of New York to support downstream solar panel sales and installation for five years after Manufacturing Facility completion, (iv) work with the Foundation to attract 1,440 additional support contractor and supplier jobs in the State of New York following full production, (v) spend or incur approximately $5 billion in combined capital, operational expenses and other costs in the State of New York during the 10 year period following full production, (vi) make reasonable efforts to provide first consideration to New York-based suppliers, (vii) invest and spend in manufacturing operations at a level than ensures competitive product costs for at least five years from full production, and (viii) negotiate in good faith with the Foundation on an exclusive first opportunity basis for 120 days before entering into any agreement for additional solar panel manufacturing capacity that Silevo may wish to develop during the term of the agreement. If we are not able to hire the specified number of employees or identify and qualify local vendors and suppliers, we would face the risk of not only failing to meet the performance criteria under the Riverbend Agreement but also being capable of running the operations related to the Manufacturing Facility. If we fail in any year over the course of the ten year term to meet these specified investment and job creation obligations, as described above, we would be obligated to pay a program payment of $41.2 million to the Foundation in any such year. In addition, we are subject to other events of defaults, including breach of these program payments and certain insolvency events, that would lead to the acceleration of all of the then unpaid program payments by us to the Foundation. Our failure to meet our contractual obligations under the Riverbend Agreement may result in our obligation to pay significant amounts to the Foundation in scheduled program payments, other contractual damages and/or the termination of our lease of the Manufacturing Facility. Any inability on our part to raise the capital necessary to operate the Manufacturing Facility and meet the specified requirements of the Riverbend Agreement during the 10 year period following full production would also cause a material adverse effect upon our business operations and prospects.

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Our expectations as to the cost of building the Manufacturing Facility, acquiring manufacturing equipment and supporting our manufacturing operations may prove incorrect, which could subject us to significant expenses to achieve the desired benefits under the Riverbend Agreement.

In addition to the funding provided by the Foundation from the State of New York, we currently estimate that we will need to spend up to $150 million in connection with the construction and commissioning of the Manufacturing Facility and the initial manufacturing equipment. In the event of any cost overruns in construction, commissioning, acquiring manufacturing equipment or operating the Manufacturing Facility, we may incur additional capital and operating expenses that would have a material adverse effect upon our business operations and prospects.

Our projections as to the time necessary to build the Manufacturing Facility and acquire the manufacturing equipment may prove incorrect and subject us to significant delay and additional expense.

We currently anticipate that the Manufacturing Facility will be completed and be ready to commence operations in the first quarter of 2016. However, there are a number of risks which may delay the completion of the Manufacturing Facility and commencement of operations, including:

- failure or delay in obtaining necessary permits, licenses or other governmental support or approvals;
- the time necessary for the construction of related utility and infrastructure improvements;
- unforeseen engineering problems;
- the inability to identify and hire qualified construction and other workers on a timely basis or at all;
- construction delays and contractor performance shortfalls;
- work stoppages or labor disruptions, including efforts by our employees to enter into collective bargaining agreements;
- availability of raw materials and components from suppliers and any delivery delays in such materials or components;
- delays resulting from environmental conditions, and any design changes or additions necessary to remediate prior environmental hazards at the site; and
- adverse weather conditions, such as an extreme winter, and natural disasters.

Any delay in the completion of the Manufacturing Facility and commencement of our operations will result in us incurring additional expenses and could negatively affect our operating results, financial condition and prospects.

We may not be able to achieve anticipated production yields, efficiencies and quality, which would harm our production volume and increase our costs.

Successfully achieving volume manufacturing of solar cells at our projected yield, efficiency and quality levels will be difficult, and we have little experience in high-volume manufacturing. As we integrate the Silevo team, expand our manufacturing capacity and qualify additional suppliers to support projected production volume, we may initially experience lower yields than anticipated. Any deviations in our manufacturing processes may result in significant decreases in production yield, efficiency and quality, and may in some cases cause production to be suspended or yield no output. If we cannot achieve planned yields over time, our production costs could increase and we may be unable to produce a sufficient amount of our solar panels to meet our installation needs.

In addition, Silevo s Triex technology is novel and involves proprietary and complex manufacturing techniques, which may result in undetected errors or defects in the solar cells produced. Any defects in our solar panels could cause us to incur significant warranty, non-warranty and re-engineering costs, divert the attention of our engineering personnel, result in indemnification liability to our fund investors and significantly affect our customer relations and business reputation.

If we are unable to achieve our cost projections or otherwise control the costs associated with operating our manufacturing business, our financial condition and operating results will suffer.

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As a result of initial production levels that under-utilize the Manufacturing Facility as we ramp up production, we anticipate that our initial production costs (on a per watt basis) will be relatively high. As we work to achieve full utilization of the Manufacturing Facility, we anticipate that the volume of production will reduce our production costs (on a per watt basis). There is no guarantee that we will be able to achieve planned cost targets, and some of these costs will be beyond our control. For example, the costs of our raw materials and components, such as polysilicon, could increase due to shortages as global demand for these products increases. Any failure to achieve our per watt cost projections would cause our financial condition and operating results to suffer. In addition, if our competitors are able to reduce their manufacturing and installation costs faster than we are able to, the pricing of our solar energy systems may become less competitive and we could lose market share.

Competition in the solar industry is intense, and future success and innovation will require additional research and development expenses.

The Manufacturing Facility is designed to be a high-technology volume-manufacturing facility. In constructing the Manufacturing Facility, including local utility infrastructure upgrades, and procuring the manufacturing equipment, the State of New York is making a significant investment in the Buffalo-area economy. However, the solar panel manufacturing market is characterized by continually changing technology that requires improved features, such as increased efficiency, higher power output and enhanced aesthetics. In the time it takes us to achieve volume production of Silevo s Triex technology, it is possible that additional innovation and solar technology advances could result in our technology and the Manufacturing Facility becoming less competitive or obsolete, which could harm our costs and adversely affect our business operations. This risk requires us to continuously focus on research and development, and will require significant on-going research and development expenses. If we cannot continually improve the efficiency and power output of our solar panels and reduce the cost of production, we could become less competitive in the market and our financial and operating results would be adversely affected.

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 September 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 ineffective as of September 30, 2014. 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.

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 that we are able to derive from monetizing the payment stream will each be reduced. Interest rates are at historically low levels, partially as a result of intervention by the U.S. Federal Reserve. The Federal Reserve has taken actions to begin to taper its intervention, and should these actions continue, it is likely that interest rates will rise, our costs of capital will increase and our ability to secure financing could be impeded. 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.

On September 23, 2014, we acquired 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.

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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;
- 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.

In connection with our acquisitions of Silevo, Zep Solar and Paramount Solar, we issued approximately 8.8 million shares of our common stock. In connection with our acquisition of Silevo, we may issue additional common stock with an aggregate value of up to $150 million, subject to adjustments, upon the timely achievement of all earnout related milestones. 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 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.

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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 $254.8 million as of September 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, 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.

In addition, production of solar panels involves the use of numerous raw materials and components, several of which have experienced periods of limited availability, particularly polysilicon, but also including indium, cadmium telluride, aluminum and copper. The manufacturing infrastructure for some of these raw materials and 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. The prices for these raw materials and components fluctuate depending on global market conditions and demand, and we may experience rapid increases in costs or sustained periods of limited supplies.

In addition to purchasing from New York-based suppliers, we anticipate that we will need to purchase supplies globally in order to meet the anticipated production output of the Manufacturing Facility. Despite our efforts to obtain raw materials and components from multiple sources whenever possible, many of our suppliers may be single source suppliers of certain components. If we are not able to maintain long-term supply agreements or identify and qualify multiple sources for raw materials and components, our access to supplies at satisfactory prices, volumes and quality levels may be harmed. We may also experience delivery delays of raw materials and components from suppliers in various global locations. In addition, we may be unable to establish alternate supply relationships or obtain or engineer replacement components in the short term, or at all, at prices or costs that are favorable to us. Qualifying alternate suppliers or developing our own replacements for certain components may be time consuming, costly and may force us to make modifications to our product designs.

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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. In addition, the state of the financial markets could limit our suppliers ability to raise capital if required to expand their production to meet our needs or satisfy their operating capital requirements. Changes in economic and business conditions, wars, governmental changes and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers solvency and ability to deliver components to us on a timely basis. 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.

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:

- 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.

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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 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 adversely affect our financial performance and valuation.

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.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

We are required to comply with all foreign, U.S. federal, state and local laws and regulations regarding pollution control and protection of the environment. In addition, under some statutes and regulations, a government agency, or other parties, may seek recovery and response costs from operators of property where releases of hazardous substances have occurred or are ongoing, even if the operator was not responsible for such release or otherwise at fault. While we and the State of New York have performed environmental diligence relating to the construction of the Manufacturing Facility, the site where the Manufacturing Facility is to be located is on the former site of Republic Steel and has been considered a brownfield.

The operation of Silevo s manufacturing and research and development facilities, including in Hangzhou, China, Buffalo, New York and Fremont, California, involves the use of hazardous chemicals and materials which may subject us to liabilities for any releases or other failures to comply with applicable laws, regulations and policies. Any failure by us to maintain effective controls regarding use of hazardous materials and to obtain and maintain all necessary permits could subject us to potentially significant fines and damages, or interrupt our operations.

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.

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 hardware, software, information, processes and know-how. We rely on many forms of intellectual property rights to secure our technology, including for example trade secrets and patents. We cannot be certain that we have adequately protected or will be able to adequately protect our technology, that our competitors will not be able to use our existing technology or develop similar technology independently, that any patents or other intellectual property rights held by us will be broad enough to protect our technology or that foreign intellectual property laws will adequately protect us. Moreover, our patents and other intellectual property rights may not 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. Reverse engineering, unauthorized use or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without compensating us for doing so. In addition, our proprietary technology may not be adequately protected because:

- our systems may be subject to intrusions, security breaches or targeted theft of our trade secrets;

- people may not be deterred from misappropriating our technology despite the existence of laws or contracts prohibiting it;

- unauthorized use of our intellectual property may be difficult to detect, and expensive and time consuming to remedy, and any remedies obtained may be inadequate to restore protection of our intellectual property;

- the laws of other countries in which we manufacture our solar products, such as Silevo s joint venture manufacturing company with partners in Hangzhou, China and other countries in the Asia/Pacific region, may offer little or no protection for our proprietary technology; and

reports we may be required to file in connection with any government-sponsored research contracts are or will be generally available to the public, and may disclose some of our sensitive confidential information.
Any such activities or any other inabilities to adequately protect our proprietary rights could harm our ability to compete, to generate revenue and to grow our business.

Claims of patent and other intellectual property infringement are complex and their outcomes uncertain, and the costs associated with such claims may be high and could harm our business.

Our success in operating our business, including operation of the Manufacturing Facility, depends largely on our ability to use and develop our proprietary technologies and manufacturing know-how without infringing or misappropriating the intellectual property rights of third parties, many of whom have robust patent portfolios, greater capital resources and decades of manufacturing experience. In addition, as we have gained greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial legal costs defending against the claim and could distract our management and technical personnel from our business. In particular, the validity and scope of claims relating to photovoltaic technology patents involve complex scientific, legal and factual considerations and analysis and, therefore, may be highly uncertain. Furthermore, we could be subject to a judgment or voluntarily enter into a settlement, either of which could require us to pay substantial damages. A judgment or settlement could also include an injunction, a court order or other agreement that could prevent us from operating the Manufacturing Facility and producing our products. In addition, we might elect or be required to seek a license for the use of third party intellectual property, which may not be available on commercially reasonable terms or at all, or if available, the payments under such license may harm our operating results and financial condition. Alternatively, we may be required to develop non-infringing technology, redesign our products or alter our manufacturing techniques and processes, each of which could require significant research and development efforts and expenses and may ultimately not be successful. Any of these events could seriously harm our business, operating results and financial condition.

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 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 $1,325.2 million as of September 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 2018 Notes) and our 1.625% Convertible Senior Notes due 2019 issued in September and October 2014 (the 2019 Notes and together with the 2018 Notes, 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. As of September 30, 2014, we had the ability to draw up to an additional $662.9 million under our credit facilities. 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. In September and October 2014, we amended our revolving credit facility to allow for the issuance of the 2019 Notes and Solar Bonds. 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.

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.

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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.

Our manufacturing operations and our continued international expansion efforts may subject us to additional regulatory risks that may harm our operating results. For example, business practices in certain foreign countries, particularly those with developing economies, may be prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act, or the FCPA. The FCPA generally prohibits companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. Other countries in which we operate have adopted similar anti-bribery and anti-corruption laws. Our operations have historically been conducted predominantly within the United States, and our international expansion has largely resulted from acquired businesses, including Silevo s joint-venture operations in China with entities affiliated with the Chinese government. Any violation of anti-bribery and anti-corruption laws could subject us to criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, financial condition, cash flows and reputation.

Our expanded operations also subject us to risks associated with currency fluctuations.

Our need to purchase supplies globally in order to meet the anticipated production output of the Manufacturing Facility, and our continued international expansion further subjects us to risks relating to currency fluctuations. Foreign currencies periodically experience rapid fluctuations in value against the U.S. dollar. A weakened U.S. dollar could increase the cost of procurement of raw materials from foreign jurisdictions and operating expenses in foreign locations, which could have a material adverse effect on our business and financial results.

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 November 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.

We incur significant costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and The NASDAQ Global Select Market. If these requirements divert our management s attention from other business concerns, they could have a material adverse effect on our business, prospects, financial condition and operating results. In addition, complying with these rules and regulations has substantially increased our legal and financial compliance expenses, has made some activities more time-consuming and costly, and may in the future require us to reduce costs in other areas of our business or increase the prices of our solutions, which could negatively impact 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 8.8 million shares in the aggregate for our acquisitions of Silevo, Zep Solar and certain assets of Paramount Solar. 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.

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As of September 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 41.3% 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;
- 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: November 6, 2014

SOLARCITY CORPORATION

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

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1a	Amendment No. 1 to Agreement and Plan of Merger, dated as of September 5, 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.
4.5	Indenture, dated as of September 30, 2014, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of the Registrant filed on October 6, 2014)
4.6	Indenture, dated as of October 15, 2014, between the Registrant and U.S. Bank N.A. (incorporated by reference to Exhibit 4.1 to the Form S-3 ASR Registration Statement (File No.: 333-199321) of the Registrant filed on October 15, 2014)
4.7	First Supplemental Indenture, dated as of October 15, 2014, to Indenture, dated as of October 15, 2014, between the Registrant and U.S. Bank N.A. (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of the Registrant filed on October 15, 2014)
4.8	Second Supplemental Indenture, dated as of October 15, 2014, to Indenture, dated as of October 15, 2014, between the Registrant and U.S. Bank N.A. (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of the Registrant filed on October 15, 2014)
4.9	Third Supplemental Indenture, dated as of October 15, 2014, to Indenture, dated as of October 15, 2014, between the Registrant and U.S. Bank N.A. (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of the Registrant filed on October 15, 2014)
4.10	Fourth Supplemental Indenture, dated as of October 15, 2014, to Indenture, dated as of October 15, 2014, between the Registrant and U.S. Bank N.A. (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K of the Registrant filed on October 15, 2014)
10.10h	Third Amendment to the Amended and Restated Credit Agreement, dated as of September 23, 2014, by and among SolarCity Corporation, a Delaware corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.
10.10i*	Fourth Amendment to the Amended and Restated Credit Agreement, dated as of October 10, 2014, by and among SolarCity Corporation, a Delaware corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.
10.14d*	Fourth 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 August 19, 2014.
10.16	Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of September 2, 2014, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.
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.

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

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.