SOLARCITY CORP
Form 10-Q
August 09, 2013
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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 June 30, 2013

or

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

For the transition period from _________ to _________

Commission File Number: 001-35758

SolarCity Corporation

(Exact name of registrant as specified in its charter)

Delaware	**02-0781046**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer 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	¨	Accelerated filer	¨
Non-accelerated filer	x	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 June 30, 2013 was 78,278,355.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SolarCity Corporation

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Par Values)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 159,606	$ 160,080
Restricted cash	6,031	7,516
Accounts receivable (net of allowances for doubtful accounts of $446 and $220 as of June 30, 2013 and December 31, 2012, respectively)	23,988	25,145
Rebates receivable	20,235	17,501
Inventories	68,735	87,903
Deferred income tax asset	5,377	5,770
Prepaid expenses and other current assets	25,831	11,502
Total current assets	309,803	315,417
Restricted cash	1,984	2,810
Solar energy systems, leased and to be leased net	1,278,880	1,002,184
Property and equipment net	19,862	18,635
Other assets	27,675	22,796
Total assets(1)	$ 1,638,204	$ 1,361,842
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 77,705	$ 62,986
Distributions payable to noncontrolling interests	26,935	12,028
Current portion of deferred U.S. Treasury grants income	14,809	11,376
Accrued and other current liabilities	43,743	52,334
Customer deposits	7,818	8,753
Current portion of deferred revenue	37,949	31,516
Current portion of long-term debt	8,702	20,613
Current portion of lease pass-through financing obligation	27,939	13,622
Current portion of sale-leaseback financing obligation	403	389
Total current liabilities	246,003	213,617
Deferred revenue, net of current portion	277,827	204,396
Long-term debt, net of current portion	115,213	83,533
Long-term deferred tax liability	5,400	5,790
Lease pass-through financing obligation, net of current portion	104,662	125,884
Sale-leaseback financing obligation, net of current portion	14,550	14,755
Deferred U.S. Treasury grants income, net of current portion	393,268	286,884
Other liabilities and deferred credits	149,854	112,056
Total liabilities(1)	1,306,777	1,046,915
Commitments and contingencies *(Note 11)*		
Stockholders equity:		
Common stock, $0.0001 par value authorized, 1,000,000 shares as of June 30, 2013 and December 31, 2012, respectively; issued and outstanding, 78,278 and 74,913 as of June 30, 2013 and December 31, 2012, respectively	7	7

Additional paid-in capital	348,081	325,705
Accumulated deficit	(166,271)	(111,392)
Total stockholders equity	181,817	214,320
Noncontrolling interests in subsidiaries	149,610	100,607
Total equity	331,427	314,927
Total liabilities and equity	$ 1,638,204	$ 1,361,842

(1) The Company s consolidated assets as of June 30, 2013 and December 31, 2012 include $578,314 and $562,531, 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 $533,792 and $530,230 as of June 30, 2013 and December 31, 2012, respectively; cash and cash equivalents of $18,184 and $16,065 as of June 30, 2013 and December 31, 2012, respectively; restricted cash, long-term of $130 and $0 as of June 30, 2013 and 2012, respectively; accounts receivable, net, of $4,356 and $1,681 as of June 30, 2013 and December 31, 2012, respectively; prepaid expenses and other assets of $6,043 and $2,603 as of June 30, 2013 and December 31, 2012, respectively; and rebates receivable of $13,475 and $8,985 as of June 30, 2013 and December 31, 2012, respectively; other assets of $2,334 and $2,800 as of June 30, 2013 and 2012, respectively. The Company s consolidated liabilities as of June 30, 2013 and December 31, 2012 included $40,052 and $19,853, respectively, being liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to noncontrolling interests of $26,935 and $12,028 as of June 30, 2013 and December 31, 2012, respectively; customer deposits of $3,629 and $4,162 as of June 30, 2013 and December 31, 2012, respectively; accounts payable of $0 and $9 as of June 30, 2013 and December 31, 2012, respectively; accrued and other payables of $1,887 and $938 as of June 30, 2013 and December 31, 2012, respectively; other liabilities of $1,759 and $0 as of June 30, 2013 and December 31, 2012; and bank borrowings of $5,842 and $2,716 as of June 30, 2013 and December 31, 2012, respectively.

See further description in Note 6, VIE 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Operating leases	$ 20,608	$ 11,528	$ 35,697	$ 19,667
Solar energy systems sales	17,341	35,046	32,240	51,748
Total revenue	37,949	46,574	67,937	71,415
Cost of revenue:				
Operating leases	7,223	3,710	12,726	6,292
Solar energy systems	15,247	31,899	27,036	44,024
Total cost of revenue	22,470	35,609	39,762	50,316
Gross profit	15,479	10,965	28,175	21,099
Operating expenses:				
Sales and marketing	21,344	15,700	39,223	31,831
General and administrative	21,176	10,788	37,794	19,350
Total operating expenses	42,520	26,488	77,017	51,181
Loss from operations	(27,041)	(15,523)	(48,842)	(30,082)
Interest expense, net	5,421	4,841	11,740	8,335
Other expense, net	162	1,455	302	10,429
Loss before income taxes	(32,624)	(21,819)	(60,884)	(48,846)
Income tax benefit (provision)	(25)	(30)	80	(65)
Net loss	(32,649)	(21,849)	(60,804)	(48,911)
Net (loss) income attributable to noncontrolling interests	(8,764)	3,984	(5,925)	(25,834)
Net loss attributable to stockholders	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Net loss attributable to common stockholders				
Basic	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Diluted	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Net loss per share attributable to common stockholders				
Basic	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)
Diluted	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)
Weighted average shares used to compute net loss per share attributable to common stockholders				
Basic	76,529,698	10,897,198	75,861,802	10,690,564
Diluted	76,529,698	10,897,198	75,861,802	10,690,564

See accompanying notes.

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SolarCity Corporation

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(UNAUDITED)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operating activities:		
Net loss	$ (60,804)	$ (48,911)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on disposal of property and equipment		10
Depreciation and amortization net of amortization of deferred U.S. Treasury grant income	15,989	9,021
Interest on lease pass-through financing obligation	6,869	4,939
Stock-based compensation	8,996	4,713
Revaluation of convertible redeemable preferred stock warrants		9,557
Revaluation of preferred stock forward contract		350
Deferred income taxes	3	6
Reduction in lease pass-through financing obligation	(14,239)	(7,290)
Changes in operating assets and liabilities:		
Restricted cash	(1,591)	(381)
Accounts receivable	1,157	(16,396)
Rebates receivable	(2,734)	652
Inventories	19,168	2,153
Prepaid expenses and other current assets	(12,717)	(2,941)
Other assets	(2,190)	(5,132)
Accounts payable	14,719	(68,075)
Accrued and other liabilities	31,382	21,744
Customer deposits	(935)	(5,025)
Deferred revenue	79,864	62,542
Net cash provided by (used in) operating activities	82,937	(38,464)
Investing activities:		
Payments for the cost of solar energy systems, leased and to be leased	(296,254)	(174,552)
Purchase of property and equipment	(3,893)	(5,970)
Net cash used in investing activities	(300,147)	(180,522)
Financing activities:		
Investment fund financings and bank borrowings:		
Borrowings under long-term debt	34,464	60,532
Repayments of long-term debt	(18,616)	(18,127)
Borrowings under bank line of credit		19,418
Repayments of sale-leaseback financing obligation	(191)	(178)
Proceeds from lease pass-through financing obligation	20,592	123,593
Repayment of capital lease obligations	(1,212)	(15,582)
Proceeds from investment by noncontrolling interests in subsidiaries	146,071	21,795
Distributions paid to noncontrolling interest in a subsidiary	(76,236)	(91,298)
Proceeds from U.S. Treasury grants	98,484	48,076
Net cash provided by financing activities before equity issuances	203,356	148,229
Equity issuances:		
Proceeds from exercise of stock options	5,346	1,197
Proceeds from issuance of convertible redeemable preferred stock		80,868
Proceeds from exercise of common stock warrants	8,034	
Net cash provided by equity issuances	13,380	82,065

Net cash provided by financing activities	216,736	230,294
Net (decrease) increase in cash and cash equivalents	(474)	11,308
Cash and cash equivalents, beginning of period	160,080	50,471
Cash and cash equivalents, end of period	$ 159,606	$ 61,779
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 3,189	$ 3,290
Cash paid during the period for taxes	$	$ 2,689

See accompanying notes.

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SolarCity Corporation

Notes to Consolidated Financial Statements (Unaudited)

1. Organization

SolarCity Corporation, or the Company , was incorporated as a Delaware corporation on June 21, 2006. The Company is engaged in the design, installation and sale or lease of solar energy systems to residential and commercial customers, or sale of electricity generated by solar energy systems to customers. The Company also offers energy efficiency solutions and services aimed at improving residential energy efficiency and lowering overall residential energy costs to its 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, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair statement of the results of operations for the interim periods covered and the consolidated financial position of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s audited consolidated financial statements contained in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 27, 2013. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2013, 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 Section 810, 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 ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as variable interest entities, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of a 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 in a number of VIEs refer to Note 6, VIE Arrangements. The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

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 accompanying notes. The Company regularly makes significant estimates and assumptions including, but not limited to, the estimates which affect the estimated selling price of undelivered elements for revenue recognition purposes, the collectibility of accounts receivable, the valuation of inventories, the estimated total costs for long-term contracts used as a basis of determining percentage of completion for such contracts, the estimated fair value and residual values of solar energy systems subject to leases, the useful lives of solar energy systems, property and equipment and intangible assets, the determination of accrued liabilities, the discount rates used to estimate the fair value of investment tax credits, accounting for business combinations, the valuation of stock-based compensation, and the determination of valuation allowances associated with deferred tax assets. The Company 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 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 value hierarchy, which prioritizes inputs that may be used to measure fair value as follows:

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

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

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

As of June 30, 2013 and December 31, 2012, there were no fair value measurements of assets and liabilities subsequent to initial recognition.

The Company s financial instruments include customer deposits, distributions payable to noncontrolling interests, borrowings under lines of credit, and long-term debt facilities. The carrying values of its financial instruments other than its long-term debt approximate their fair values due to the fact that they are short-term in nature at June 30, 2013 and December 31, 2012 (Level 1). The Company estimates the fair value of its long-term debt based upon rates currently offered for debt of similar maturities and terms (Level 3). The Company has estimated the fair value of its long-term debt to approximate its carrying value.

Warranties

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

	As of and for the Six Months Ended June 30, 2013
Balance beginning of the period	$ 4,019
Provision charged to warranty expense	1,702
Less warranty claims	(156)
Balance end of the period	$ 5,565

Solar Energy Systems Performance Guarantees

The Company guarantees certain specified minimum solar energy production output for systems leased to customers. The Company monitors the solar energy systems to ensure that these outputs are being achieved. The Company evaluates if any amounts are due to its customers. As of June 30, 2013, the Company had recorded liabilities of $0.7 million, as accrued and other current liabilities in the condensed consolidated

financial statements relating to these guarantees based on the Company s assessment of its exposure.

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Deferred U.S. Treasury Grants Income

The Company is eligible for U.S. Treasury grants received or receivable on eligible property as defined 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, which includes solar energy system installations, upon approval by the U.S. Treasury Department. For solar energy systems under lease pass-through arrangements the Company reduces the financing obligation and records deferred income for the U.S. Treasury grants which are paid directly to the investors upon receipt of the grants by the investors. The benefit of the U.S. Treasury grants is recorded as deferred income and is amortized on a straight-line basis over the estimated useful lives of the related solar energy systems of 30 years. The amortization of the deferred income is recorded as a reduction to depreciation expense which is a component of the cost of revenue of operating leases in the condensed consolidated statement of operations. A catch up adjustment is recorded in the period in which the grant is approved by the U.S. Treasury Department or received by lease pass-through investors to recognize the portion of the grant that matches proportionally the amortization for the period between the date of placement in service of the solar energy systems and approval by the U.S. Treasury Department or receipt by lease pass-through investors of the associated grant. The changes in deferred U.S. Treasury grants income during the six month period ended June 30, 2013 were as follows (in thousands):

Balance as of December 31, 2012	$ 298,260
U.S. Treasury grants received and receivable by the company	101,044
U.S. Treasury grants received by investors under lease pass-through arrangements	16,225
Amortized during the period as a credit to depreciation expense	(7,452)
Balance as of June 30, 2013	$ 408,077

Of the balance outstanding as of June 30, 2013 $393.3 million is presented as noncurrent deferred U.S. Treasury grants income in the condensed consolidated balance sheets.

Deferred Investment Tax Credits Revenue

The Company s solar energy systems are eligible for investment tax credits, or ITCs, that accrue to eligible property under the Internal Revenue Code. The Company is able to monetize these ITCs to investors who can utilize them in return for cash payments made through various arrangements formed by the Company. The Company considers the monetization of ITCs to constitute one of the key elements of realizing the value associated with solar energy systems. The Company therefore views the proceeds from the monetization of ITCs to be a component of revenue generated from the solar energy systems.

For lease pass-through structures, the Company monetizes the ITCs by assigning the ITCs associated with the systems leased to the investor. In addition, future customer lease payments are assigned to the investors in return for a cash consideration. The Company allocates a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs. The estimated fair value of the ITCs is determined by discounting the estimated cash flows impact of the ITCs using an appropriate discount rate that reflects a market interest rate.

The Company guarantees its fund investors that in the event of a subsequent recapture of the ITCs by the taxing authority due to the Company s noncompliance with the applicable ITC guidelines, the Company will compensate the investor for any recaptured credits. The Company has concluded that the likelihood of a recapture event is remote and consequently has not recorded any liability in the condensed consolidated financial statements for any potential recapture exposure. The amount allocated to the ITCs is recorded as deferred revenue on the condensed consolidated balance sheet and is recognized in the condensed consolidated statement of operations as a component of revenue, by reducing the deferred revenue balance at each reporting date as the five-year recapture period expires.

The balance of deferred investment tax credits revenue, which is included as part of deferred revenue in the condensed consolidated balance sheet, as of June 30, 2013 and December 31, 2012 was $37.6 million and $0, respectively.

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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 the Company s net loss, as well as other comprehensive income (loss). There were no differences between comprehensive loss as defined by ASC 220 and net loss as reported in the Company s accompanying 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, comprising the chief executive officer, the chief operating officer, chief revenue 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 and energy efficiency 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. Prior to the Company s initial public offering of its common stock, the Company s convertible redeemable preferred stock was entitled to receive dividends of up to $0.01 per share when and if dividends were declared on the common stock and thereafter participate pro rata on an as converted basis with the common stock holders on any distributions to common stockholders. They were therefore participating securities. As a result, the Company calculates the net income (loss) per share using the two-class method. Accordingly, the net income (loss) attributable to common stockholders is derived from the net income (loss) for the period and, in periods in which the Company has net income attributable to common stockholders, an adjustment is made for the noncumulative dividends and allocations of earnings to participating securities based on their outstanding shareholder rights. Under the two-class method, the net loss attributable to common stockholders is not allocated to the convertible redeemable preferred stock as the convertible redeemable preferred stock did not have a contractual obligation to share in the Company s losses.

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 as-if converted method as applicable. In periods when the Company incurred a net loss attributable to common stockholders, convertible redeemable preferred stock, stock options, restricted stock units, warrants to purchase common stock, and warrants to purchase convertible redeemable preferred stock 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 Standard

In July 2013, the FASB issued Accounting Standards Update, or ASU, No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, to specify when an unrecognized tax benefit should be presented as a liability versus an offset against a deferred tax asset. The ASU is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. The Company is currently assessing the impact of the ASU on the Company s consolidated financial statements.

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3. Selected Balance Sheet Components

	June 30, 2013	December 31, 2012
Inventories:		
Raw materials	$ 55,645	$ 69,726
Work in progress	13,090	18,177
Total	$ 68,735	$ 87,903
Solar Energy Systems, Leased and To Be Leased Net:		
Solar energy systems leased to customers(1)	$ 1,174,834	$ 895,020
Initial direct costs related to solar energy systems leased to customers	71,247	54,095
	1,246,081	949,115
Less accumulated depreciation and amortization	(62,581)	(43,024)
	1,183,500	906,091
Solar energy systems under construction	39,395	43,747
Solar energy systems to be leased to customers	55,985	52,346
Solar energy systems, leased and to be leased net	$ 1,278,880	$ 1,002,184
Other Liabilities and Deferred Credits:		
Deferred gain on sale-leaseback transactions, net of current portion	$ 57,652	$ 59,243
Deferred rent expense	4,511	4,443
Capital lease obligation	27,887	28,688
Amounts received from lease pass-through investors for monetization of investment tax credits for systems not installed	47,704	18,111
Other noncurrent liabilities	12,100	1,571
Total	$ 149,854	$ 112,056

(1) Included under solar energy systems leased to customers as of June 30, 2013 and December 31, 2012 was $66.4 million and $66.4 million, respectively, related to capital leased assets, with an accumulated depreciation of $3.9 million and $2.6 million, respectively.

4. Long-Term Debt

Working Capital Financing

On May 26, 2010, a subsidiary of the Company entered into a financing agreement with a bank to obtain funding for working capital. The amount to be borrowed under the financing agreement is determined based on the estimated present value of expected future lease rentals to be generated by solar energy systems owned by the subsidiary and leased to customers, but shall not exceed $16.3 million. The working capital financing facility was funded in four tranches and was available for drawdown through March 31, 2011.

Through June 30, 2013, the Company borrowed an aggregate of $13.3 million under the working capital financing facility. Of the amounts borrowed, $10.6 million and $11.1 million were outstanding as of June 30, 2013 and December 31, 2012, respectively, of which $9.5 million and $10.0 million are included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of June 30, 2013 and December 31, 2012, respectively. Each tranche bears interest at an annual rate of 2% plus the swap rate applicable to the average life of the scheduled rent receipts for the tranche. For the amounts borrowed as of June 30, 2013, the interest rates ranged between 5.48% and 5.65%. The working capital financing facility is secured by substantially all the assets of the subsidiary and is nonrecourse to the general credit of the Company. The working capital financing facility matures on December 31, 2024. The Company was in compliance with all debt covenants as of

June 30, 2013.

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Vehicle and Other Loans

The Company has entered into various loan agreements consisting of vehicle and other loans with various financial institutions. The principal amounts of these vehicle and other loans mature between July 2013 and June 2018. The Company was in compliance with all debt covenants as of June 30, 2013.

In January 2011, the Company entered into an additional $7.0 million term loan facility with a bank to finance the purchase of vehicles. This facility bears interest at an annual rate of 2.75% and is secured by the vehicles financed under this facility. This facility matures in January 2015. As of June 30, 2013, the Company had drawn $5.9 million of the available amount. Total other loans payable as of June 30, 2013 and December 31, 2012 amounted to $7.7 million and $7.7 million, respectively, with interest rates between 0.0% and 11.31%. Of the amounts outstanding, $4.4 million and $4.7 million were classified as long-term as of June 30, 2013 and December 31, 2012, respectively. The loans are secured by the financed property and equipment. The Company was in compliance with all debt covenants as of June 30, 2013.

Inventory Term Loan Facility

On March 8, 2012, the Company entered into a $58.5 million term loan facility with a syndicate of banks to finance the purchase of inventory. Interest on the borrowed funds bears interest at an annual rate of 3.75% plus LIBOR and is secured by the Company s inventory. As of June 30, 2013, the interest rate for this facility was 3.94%. This facility matures in August 2013. Through June 30, 2013, the Company had borrowed an aggregate of $58.5 million under this facility, from which the Company paid $1.5 million as fees. Of the amounts borrowed, $3.0 million was outstanding as of June 30, 2013 and is included in the condensed consolidated balance sheets under current portion of long-term debt. The Company was in compliance with all debt covenants as of June 30, 2013.

Term Loans

On February 8, 2013, a subsidiary of the Company entered into an agreement with a bank for a term loan of $10 million. The loan proceeds were used to finance the Company s acquisition of a fund investor s interests in three of the Company s financing funds. The loan bears interest at an annual rate equal to the lower of (i) the sum of LIBOR plus 3.25% and (ii) an interest rate cap of 6.50%. As of June 30, 2013, the interest rate for the loan was 3.44%. The loan is secured by the assets of certain of the Company s subsidiaries and is nonrecourse to the Company s other assets. The loan matures on January 31, 2015. Through June 30, 2013, the Company had borrowed an aggregate of $8.1 million, of which $6.1 million is included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of June 30, 2013. The Company was in compliance with all debt covenants as of June 30, 2013.

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 for working capital financing. The loan bears interest at an annual rate equal to LIBOR plus 3.25%. As of June 30, 2013, the interest rate for the loan was 3.44%. The loan is secured by the assets and future cash inflows of the subsidiary of the Company and is nonrecourse to the Company s other assets. The loan matures on June 7, 2015. Through June 30, 2013, the Company had borrowed an aggregate of $17.7 million under the loan. The outstanding balance is included under long-term debt. The Company was in compliance with all debt covenants as of June 30, 2013.

5. Borrowings Under Bank Lines of Credit

Credit Facility for SolarStrong

On November 21, 2011, a subsidiary of the Company and a bank entered into a credit agreement, whereby the bank would provide this subsidiary with a credit facility for up to $350 million. This facility will be used to partially fund the Company s SolarStrong initiative and will be non-recourse to the other assets of the Company. The SolarStrong initiative is a five-year plan to build solar power projects for privatized U.S. military housing communities across the country. The credit facility will be drawn down in tranches as defined in the credit facility agreement, with the interest rates to be determined as the amounts are drawn down. The credit facility will be collateralized by assets of the SolarStrong initiative. As of June 30, 2013, the Company s subsidiary had borrowed $5.8 million of which $5.6 million is included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of June 30, 2013. The debt principal and interest are payable in semi-annual installments over a 20-year term ending in 2032 and bears interest rates between 6.78% and of 7.27%. The Company was in compliance with all debt covenants as of June 30, 2013.

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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 general corporate needs. This revolving credit agreement has a $75.0 million committed facility, of which $70.0 million was initially available pursuant to the facility s terms. The borrowed funds bear interest, which is payable monthly, at a rate of 3.875% plus LIBOR or, at the Company s option, at a rate equal to 2.875% plus the higher of the federal funds rate plus 0.5%, or Bank of America s published prime rate, or LIBOR plus 1%. The fee for letters of credit is 3.875% per annum, and the fee for undrawn commitments is 0.375% per annum. The facility is secured by certain of the Company s machinery and equipment, accounts receivables, inventory, and other assets, excluding certain inventory pledged to other lenders. The facility matures and is payable in full in September 2014, at which date it may be extended by an additional year if the Company satisfies certain financial conditions. As of June 30, 2013, $72.5 million, net of lender fees, was borrowed and outstanding under this revolving credit agreement. The outstanding balance is included under long-term debt. The Company was in compliance with all debt covenants as of June 30, 2013.

6. VIE Arrangements

Since 2008, wholly owned subsidiaries of the Company and fund investors have formed and contributed cash or assets into various financing funds and entered into related agreements. As of June 30, 2013, the VIE investors had contributed $688.4 million into the VIEs.

The Company has determined 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 associated customer leases to be sold or contributed to the VIE, preparation and approval of budgets. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights.

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 funds, and all intercompany balances and transactions between the Company and the financing funds are eliminated in the condensed consolidated financial statements.

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

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

Pursuant to management services, maintenance, and warranty arrangements, the Company has been contracted to provide services such as warranty support, accounting, lease servicing, and performance reporting. In some instances the Company has guaranteed payments to the fund investors as specified in the contractual agreements. The funds creditors have no recourse to the general credit of the Company or to that of other funds. As of June 30, 2013, the assets of one of the VIEs with a carrying value of $29.5 million have been pledged as collateral for the VIE s borrowings under the SolarStrong facility. None of the assets of the other VIEs have been pledged as collateral for the VIEs obligations.

The Company has aggregated the financial information of the financing funds in the table below. The aggregate carrying value of these funds assets and liabilities (after elimination of intercompany transactions and balances) in the Company s condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012, are as follows (in thousands):

	June 30, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 18,184	$ 16,065
Restricted cash, short term		167
Accounts receivable, net	4,356	1,681
Prepaid expenses and other assets	6,043	2,603
Rebates receivable	13,475	8,985
Total current assets	42,058	29,501
Restricted cash, long term	130	
Solar energy systems, leased and to be leased, net	533,792	530,230
Other assets	2,334	2,800
Total assets	$ 578,314	$ 562,531
Liabilities		
Current liabilities		
Accounts payable	$	$ 9
Customer deposits	3,629	4,162
Distributions payable to noncontrolling interests	26,935	12,028
Current portion of deferred U.S. Treasury grants income	6,528	6,710
Current portion of deferred revenue	9,592	11,324
Accrued and other liabilities	1,887	938
Current portion of bank borrowings	242	131
Total current liabilities	48,813	35,302
Bank borrowings, net of current portion	5,600	2,585
Deferred revenue, net of current portion	161,738	160,093
Deferred U.S. Treasury grant income, net of current portion	177,431	184,470
Other liabilities	1,759	
Total liabilities	$ 395,341	$ 382,450

7. Equity

Changes in total stockholder s equity and noncontrolling interests in the six months ended June 30, 2013 was as follows:

	Total Stockholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2012	$ 214,320	$ 100,607	$ 314,927
Issuance of common stock upon exercise of stock options for cash	5,346		5,346
Issuance of common stock upon exercise of common stock warrants for cash	8,034		8,034

Contributions from noncontrolling interests		146,071	146,071
Stock-based compensation expense	8,996		8,996
Net loss	(54,879)	(5,925)	(60,804)
Distributions to noncontrolling interests		(91,143)	(91,143)
Balance, June 30, 2013	$ 181,817	$ 149,610	$ 331,427

On May 8, 2013, a fund investor exercised its warrants to purchase 1,485,010 shares of the Company s common stock for $8.0 million.

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8. Stock Option Plans

Under the Company s 2007 Stock Plan, the Company may grant options to purchase or directly issue incentive stock options and nonstatutory stock options, respectively, of common stock to employees, directors, and consultants. Incentive stock options may be granted at a price per share not less than 100% of the fair market value at date of grant. If the incentive stock option is granted to a 10% stockholder, then the purchase or exercise price per share shall not be less than 110% of the fair market value per share of common stock on the grant date. Nonstatutory stock options may be granted at a price per share not less than 100% of the fair market value at date of grant. Options granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years.

In September 2012, the Company adopted a director compensation plan for future non-employee directors. Under the director compensation plan, each individual who joins the board of directors as a non-employee director following the adoption of the plan will receive an initial stock option grant to purchase 30,000 shares of common stock at the time of initial election or appointment and additional triennial stock option grants to purchase 15,000 shares of common stock, 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 will receive various specified additional equity awards and cash retainers.

A summary of stock option activity for the six months ended June 30, 2013 is as follows (in thousands, except per share amounts):

	Common Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding December 31, 2012	14,903	$ 4.80	7.67	$ 107,653
Granted (weighted-average fair value of $27.24)	1,945	34.57		
Exercised	(1,880)	2.84		
Canceled	(673)	9.83		
Outstanding June 30, 2013	14,295	$ 8.87	7.52	$ 421,330
Options vested and exercisable June 30, 2013	7,158	$ 3.53	6.71	$ 245,097
Options vested and expected to vest June 30, 2013	13,141	$ 8.16	7.43	$ 395,498

The aggregate intrinsic value of options exercised was (in thousands) $47,090 and $4,545 during the three months ended June 30, 2013 and 2012, respectively, and $52,025 and $5,591 during the six months ended June 30, 2013 and 2012, respectively. The grant date fair market value of options that vested was (in thousands) $21,523 and $2,855 for the three months ended June 30, 2013 and 2012, respectively, and $67,258 and $5,436 for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, there was $59.3 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to nonvested stock options, which are expected to be recognized over the weighted average period of 2.93 years.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Dividend yield	0%	0%	0%	0%

Annual risk-free rate of return	1.23%	0.97%	1.17%	1.12%
Expected volatility	99.1%	87.53%	98.3%	87.52%
Expected term (years)	6.44	6.20	6.42	6.13

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

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

The amount of stock-based compensation expense recognized was (in thousands) $5,274 and $2,622 during the three months ended June 30, 2013 and 2012, respectively, and $8,996 and $4,713 during the six months ended June 30, 2013 and 2012, respectively. The Company capitalized costs of (in thousands) $1,483 and $652, for the three months ended June 30, 2013 and 2012, respectively, and $2,679 and $1,225 for the six months ended June 30, 2013 and 2012, respectively, as a component of work-in-progress, within solar energy systems leased to customers and solar energy systems held for lease to customers.

This expense was included in cost of revenue and in operating expenses as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Cost of revenue	$ 126	$ 153	$ 303	$ 201
Sales and marketing	736	334	1,326	528
General and administrative	2,929	1,483	4,688	2,759

9. 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 June 30, 2013 and 2012 were determined based on the Company s estimated consolidated effective income tax rates of 0.08% and 0.13%, respectively. The income tax expense for the six months ended June 30, 2013 and 2012 were determined based on the Company s estimated consolidated effective income tax rates of negative 0.13% and 0.13%, respectively. The differences between the estimated consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to a valuation allowance and the current amortization of the prepaid income taxes due to inter-company sales held within the consolidated group.

As part of the assets monetization strategy, the Company has agreements to sell solar energy systems to the solar financing fund joint ventures. The gain on the sale of the assets has been eliminated in the condensed consolidated financial statements. These transactions are treated as inter-company sales and as such, tax is not recognized on the sale until the Company no longer benefits from the underlying asset. Since the systems remain within the consolidated group, the tax expense incurred related to these sales is being deferred and amortized over the estimated useful life of the underlying systems which has been estimated to be 30 years. The deferral of the tax expense results in recording of a prepaid tax expense that is included in the condensed consolidated balance sheets as other assets. As of June 30, 2013 and December 31, 2012, the Company recorded a long-term prepaid tax expense of $2.0 million and $2.0 million, respectively, net of amortization. The amortization of the prepaid tax expense in each period makes up the major component of the tax expense.

Uncertain Tax Positions

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

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10. Related Party Transactions

The Company s operations for the three and six months ended June 30, 2013 and 2012 included the following related party transactions (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Revenue, Systems:				
Solar energy systems sales to related parties	$	$ 58	$ 17	$ 183

Related party balances as of June 30, 2013 and December 31, 2012 comprised of (in thousands):

	June 30, 2013	December 31, 2012
Due from a related party (included in accounts receivable)	$ 22	$ 932

11. Commitments and Contingencies

Noncancelable Operating Leases

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

Indemnification and Guaranteed Returns

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 tax credits or U.S. Treasury grants due to changes in the tax bases submitted. The Company has recognized in the condensed consolidated financial statements as of June 30, 2013 the potential exposure from this obligation based on all the information available, including guidelines from the U.S. Treasury Department on solar energy system valuations for purposes of U.S. Treasury grant payments. The Company believes that any other payments to its fund investors arising from this obligation are not probable based on the facts currently known.

The Company is contractually required to make payments to one fund investor to ensure 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 this financing fund state that the financing fund has an indefinite term unless the members agree to dissolve the financing 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 related to 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 uncertainties surrounding estimating the amounts of these factors, the Company is unable to estimate the maximum potential payments under this guarantee. As of June 30, 2013, the fund investor had achieved its annual minimum internal rate of return as determined in accordance with the contractual provisions of the financing fund.

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

The following table sets forth the computation of the Company s basic and diluted net loss per share during the three and six months ended June 30, 2013 and 2012 (in thousands, except share and per share amounts):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net loss attributable to common stockholders, basic	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Net loss attributable to common stockholders, diluted	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic	76,529,698	10,897,198	75,861,802	10,690,564
Weighted average shares used to compute net loss per share attributable to common stockholders, diluted	76,529,698	10,897,198	75,861,802	10,690,564
Net loss per share attributable to common stockholders, basic	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)
Net loss per share attributable to common stockholders, diluted	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Convertible redeemable preferred stock		45,280,032		45,280,032
Preferred stock warrants and common stock warrants	603,795	1,816,650	1,041,968	1,816,650
Common stock options	14,892,398	1,636,111	14,806,259	1,995,856
Restricted stock units	16,991		16,991	

13. Subsequent Event

New Financing Fund

In July 2013, the Company and a fund investor formed a new financing fund that will deploy solar energy systems with an aggregate fair value up to $190.2 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related 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 27, 2013. 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 with our energy efficiency products and services. 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 services offerings including energy efficiency services, energy storage solutions and electric vehicle charging stations.

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

Our solar energy systems serve as a gateway for us to perform energy efficiency evaluations and facilitate energy efficiency upgrades for our residential customers. During an energy efficiency evaluation, we capture, catalog and analyze all of the energy loads in the home to specifically identify the most valuable and actionable solutions to lower energy cost. We then offer to facilitate the appropriate upgrades to improve the home s energy efficiency. We offer our energy efficiency evaluations and services to our solar energy systems customers and on a stand-alone basis.

Through the first half of 2013, we typically acted as a general contractor and performed energy efficiency upgrades for our customers following energy efficiency evaluations and recommendations. We have continued with our plan to implement a new sales approach of facilitating energy efficiency upgrades through trusted third-party vendors and to transition from performing these upgrades ourselves. We will continue to perform energy efficiency evaluations for our customers and to provide recommendations for upgrades to improve energy efficiency and home comfort. Once we complete these evaluations, we will offer to provide a list of preferred vendors to the customers and introduce the customers to the third-party vendors who will perform the upgrades. In exchange for providing the introduction to the customer, the preferred vendors will pay us a referral fee. By the end of the third quarter of 2013, our goal is to have fully transitioned to this new approach to our energy efficiency business.

Initially, we only offered our solar energy systems on an outright purchase basis. In mid-2008, we began offering leases and power purchase agreements. Our ability to offer leases and power purchase agreements depends in part on our ability to finance the installation of the solar energy systems by monetizing the resulting customer receivables and related investment tax credits, accelerated tax depreciation and other incentives. We expect customers to continue to favor leases and power purchase agreements.

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

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

In the first quarter of 2013, we began monetizing certain government incentives in the form of investment tax credits, or ITCs, under lease pass-through structures by assigning the credits to investors in exchange for upfront cash payments. We record the amounts we receive from the investors for the ITCs as deferred revenue, which is subsequently recognized as revenue as the five-year recapture period expires. As the U.S. Department of Treasury Section 1603 grant program winds down, we expect to increasingly place in service solar energy systems under the ITCs program.

The amount of operating lease revenue that we recognize in a given period is dependent in part on the amount of energy generated by solar energy systems under power purchase agreements and by systems with energy output performance incentives, which in turn are dependent in part on the amount of sunlight. As a result, operating lease revenue has in the past been 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. 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 efficiency products and services. Under U.S. generally accepted accounting principles, or GAAP, the cost of revenue from our leases and power purchase agreements are primarily comprised of the depreciation of the cost of the solar energy systems, which are depreciated over the estimated useful life of 30 years, and the amortization of initial direct costs, which are amortized over the 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. Under GAAP, we are required to present 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 are required to allocate a portion of our consolidated net income (loss) to the fund investors in our joint ventures (referred to as the noncontrolling interests 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 $32.6 million and $21.8 million, for the three months ended June 30, 2013 and 2012, respectively, and $60.8 million and $48.9 million for the six months ended June 30, 2013 and 2012, respectively. However, after applying the required allocations to arrive at the consolidated net loss attributable to our stockholders, the result was a loss of $23.9 million and $25.8 million for the three months ended June 30, 2013 and 2012, respectively, and a loss of $54.9 million and $23.1 million for the six months ended June 30, 2013 and 2012, respectively.

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Financing Funds

Our lease and power purchase agreements create investment tax credits, accelerated tax depreciation deductions and other incentives. Our operating strategy is to monetize these attributes or assets to generate income. 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 financing 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 investors.

We also enter into arrangements which 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, investment tax credits, 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 in our condensed consolidated balance sheet. We recognize the amounts that are contractually payable to these investors in each period as distributions to noncontrolling interests in our condensed consolidated statement of equity. Our condensed consolidated statement of cash flows reflects cash received from these fund investors as proceeds from investments by noncontrolling interests in subsidiaries. Our condensed consolidated statement of cash flows also reflects cash paid to these fund investors as distributions paid to noncontrolling interests in subsidiaries. We reflect any unpaid distributions to these fund investors as distributions payable to noncontrolling interests in subsidiaries in our condensed consolidated balance sheet.

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 investment tax credits, 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 which we classify and allocate between the right to the investment tax credits, which is a monetization activity, where applicable, and the future customer lease payments and other benefits assigned to the investor, which are recorded as a 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 sheet as a component of solar energy systems, leased and to be leased net. We record the amounts allocated to the investment tax credits as deferred revenue on our condensed consolidated balance sheet as the associated solar energy systems are placed in service. We then recognize the deferred revenue in our condensed consolidated statement 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 sheet and subsequently reduce these obligations by the amounts received by the fund investors from U.S. Treasury Department grants, 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.

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Sale-Leaseback. Under sale-leaseback structures, we generate cash through the sale of solar energy systems to our 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 investment tax credits, accelerated depreciation and other incentives. At the end of the lease term, we have an 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 sheet.

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 efficiency evaluation or other energy efficiency services. We believe that the relationship we establish with building owners, together with the energy-related information we obtain about the buildings, position us to provide the owners with additional solutions to further lower their energy costs. Our cumulative number of customers increased by 37% to 64,411 as of June 30, 2013 from 47,079 as of December 31, 2012.

Energy Contracts

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

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

	June 30, 2013	December 31, 2012
Cumulative energy contracts	54,650	39,200

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.

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

	Three Months Ended June 30,	
	2013	2012
Megawatts deployed	53	31
Cumulative megawatts deployed	387	201

	Six Months Ended June 30,	
	2013	2012
Megawatts deployed	99	72
Cumulative megawatts deployed	387	201

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 investment tax credits, accelerated depreciation, solar renewable energy credits, performance-based incentives, state tax benefits, and rebates to cover the fixed and variable costs associated with installing solar energy systems.

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

Estimated nominal contracted payments remaining is a forward-looking number, and we use judgment in developing the assumptions used to calculate it. Those assumptions may not prove to be accurate over time. Underperformance of the solar energy systems, payment defaults by our customers, cancellation of signed contracts, or other factors described under the heading Risk Factors could cause our actual results to differ materially from our calculation of nominal contracted payments.

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Estimated aggregate nominal contracted payments remaining	$ 1,409,000	$ 1,109,000

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

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Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates during the six months ended June 30, 2013 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2012 other than those associated with investment tax credits noted below:

Deferred Investment Tax Credits Revenue

Our solar energy systems are eligible for investment tax credits, or ITCs, that accrue to eligible property under the Internal Revenue Code. We are able to assign these ITCs to investors who can utilize them in return for cash payments made through various funding arrangements formed by us.

For lease pass-through structures, we monetize the ITCs by assigning the ITCs associated with the systems leased to the investor under the master lease agreement. In addition, future customer lease payments are assigned to the investors in return for cash consideration. We allocate a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs. The estimated fair value of the ITCs is determined by discounting the estimated cash flows impacts of the ITCs using an appropriate discount rate that reflects a market interest rate.

We guarantee our fund investors that in the event of a subsequent recapture of the ITCs by the taxing authority due to our noncompliance with the applicable ITC guidelines we would compensate the investor for any recaptured credits. We have concluded that the likelihood of a recapture event is remote and consequently have not recorded any liability in the condensed consolidated financial statements for any potential recapture exposure. The amount allocated to the ITCs is recorded as deferred revenue on the condensed consolidated balance sheet and is recognized in the condensed consolidated statement of operations as a component of revenue, by reducing the deferred revenue balance as the five-year recapture period expires.

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Results of Operations

The following table sets forth selected condensed consolidated statements of operations data for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenue:				
Operating leases	$ 20,608	$ 11,528	$ 35,697	$ 19,667
Solar energy systems sales	17,341	35,046	32,240	51,748
Total revenue	37,949	46,574	67,937	71,415
Cost of revenue:				
Operating leases	7,223	3,710	12,726	6,292
Solar energy systems	15,247	31,899	27,036	44,024
Total cost of revenue	22,470	35,609	39,762	50,316
Gross profit	15,479	10,965	28,175	21,099
Operating expenses:				
Sales and marketing	21,344	15,700	39,223	31,831
General and administrative	21,176	10,788	37,794	19,350
Total operating expenses	42,520	26,488	77,017	51,181
Loss from operations	(27,041)	(15,523)	(48,842)	(30,082)
Interest expense, net	5,421	4,841	11,740	8,335
Other expense, net	162	1,455	302	10,429
Loss before income taxes	(32,624)	(21,819)	(60,884)	(48,846)
Income tax benefit (provision)	(25)	(30)	80	(65)
Net loss	(32,649)	(21,849)	(60,804)	(48,911)
Net income (loss) attributable to noncontrolling interests	(8,764)	3,984	(5,925)	(25,834)
Net loss attributable to stockholders	$ (23,885)	$ (25,833)	$ (54,879)	$ (23,077)
Net loss per share attributable to common stockholders				
Basic	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)
Diluted	$ (0.31)	$ (2.37)	$ (0.72)	$ (2.16)
Weighted average shares used to compute net loss per share attributable to common stockholders				
Basic	76,529,698	10,897,198	75,861,802	10,690,564
Diluted	76,529,698	10,897,198	75,861,802	10,690,564

Three Months Ended June 30, 2013 and 2012

Revenue

(Dollars in thousands)	Three Months Ended June 30, 2013	2012	Change $	%
Operating leases	$ 20,608	$ 11,528	$ 9,080	79%
Solar energy systems sales	17,341	35,046	(17,705)	(51)%
Total revenue	$ 37,949	$ 46,574	$ (8,625)	(19)%

Total revenue decreased by $8.6 million, or 19%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

Operating leases revenue increased by $9.1 million, or 79%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This increase was attributable to an increase in solar energy systems placed in service under leases and power purchase agreements between July 1, 2012 and June 30, 2013. The average of the aggregate megawatt production capacity of solar energy systems in service increased by 108%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. However, the impact of the installed base on the increase in revenue varied by the mix between systems under leases and power purchase agreements and also when the systems were placed in service. 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.

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Revenue from sales of solar energy systems decreased by $17.7 million, or 51%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This decrease was primarily due to a $10.7 million decrease in revenue from long-term solar energy system sales contracts, of which $5.3 million of the decrease in revenue related to sales to a specific commercial customer, and a $4.9 million decrease in large commercial solar energy system sales for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. These decreases also partially resulted from a lower average sales price of solar energy systems sold due to a decrease in the cost of solar energy system components that in turn led to a downward impact on the competitive market price of solar energy systems sold. We expect that any further decline in the cost of solar energy system components would continue to similarly impact our average sales price. These decreases were offset in part by a $2.0 million increase in revenue from sales of solar energy systems to the government and a $1.0 million increase in revenue from sales of solar energy systems to residential customers for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

Cost of Revenue, Gross Profit and Gross Profit Margin

	Three Months Ended June 30,		Change	
(Dollars in thousands)	**2013**	**2012**	**$**	**%**
Operating leases	$ 7,223	$ 3,710	$ 3,513	95%
Gross profit of operating leases	13,385	7,818	5,567	71%
Gross profit margin of operating lease revenue	65%	68%		
Solar energy systems	$ 15,247	$ 31,899	$ (16,652)	(52)%
Gross profit of solar energy systems	2,094	3,147	(1,053)	(33)%
Gross profit margin of solar energy systems	12%	9%		
Total cost of revenue	$ 22,470	$ 35,609	$ (13,139)	(37)%
Total gross profit	15,479	10,965	4,514	41%
Total gross profit margin	41%	24%		

Cost of operating leases revenue increased by $3.5 million, or 95%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This increase was primarily due to an increase in the aggregate cost of solar energy systems placed under operating leases that were interconnected and being depreciated.

Cost of sales of solar energy systems decreased by $16.7 million, or 52%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This decrease was in line with the decline in sales of solar energy systems. In addition, estimated losses from long-term solar energy system sales contracts decreased by $0.5 million for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

Operating Expenses

	Three Months Ended June 30,		Change	
(Dollars in thousands)	**2013**	**2012**	**$**	**%**
Sales and marketing expense	$ 21,344	$ 15,700	$ 5,644	36%
General and administrative expense	21,176	10,788	10,388	96%
Total operating expenses	$ 42,520	$ 26,488	$ 16,032	61%

Sales and marketing expense increased by $5.6 million, or 36%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This increase was primarily due to the increase in the average number of personnel in sales departments from 473, for the three months ended June 30, 2012, to 757, for the three months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $5.0 million for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. In addition, promotional marketing expenses increased by $0.9 million for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

General and administrative expense increased by $10.4 million, or 96%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This increase was due to the increase in the average number of personnel in general and administrative departments from 198, for the three months ended June 30, 2012, to 294, for the three months ended June 30, 2013. As a result of this growth in

headcount, employee compensation costs increased by $4.9 million and facilities costs increased by $0.5 million for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. In addition, the increase in the number of financing funds and general business activity contributed to an increase in legal and professional fees of $3.9 million for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

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Other Income and Expenses

(Dollars in thousands)	Three Months Ended June 30, 2013	2012	Change $	%
Interest expense, net	$ 5,421	$ 4,841	$ 580	12%
Other expenses, net	162	1,455	(1,293)	(89)%
Total interest and other expenses, net	$ 5,583	$ 6,296	$ (713)	(11)%

Interest expense, net, increased by $0.6 million, or 12%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. Interest expense, net, is comprised of imputed interest on financing obligations of $3.0 million and $2.8 million and interest on bank borrowings, net of interest income on cash balances, of $2.4 million and $2.0 million, each as of the three months ended June 30, 2013 and 2012, respectively. This increase was a result of higher carrying balances related to financing obligations and bank borrowings for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

Other expenses, net, decreased by $1.3 million, or 89%, for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The expense for the three months ended June 30, 2012 was primarily from a change in the fair value of convertible redeemable preferred stock warrants, which were converted to common stock warrants upon the closing of the Company s initial public offering of its common stock in December 2012 and therefore are no longer being revalued.

Net Income (Loss) Attributable to Noncontrolling Interests

(Dollars in thousands)	Three Months Ended June 30, 2013	2012	Change $	%
Net income (loss) attributable to noncontrolling interests	$ (8,764)	$ 3,984	$ (12,748)	320%

The net loss attributable to noncontrolling interests in the three months ended June 30, 2013 was $8.8 million compared to income of $4.0 million in the three months ended June 30, 2012. The net loss allocation to noncontrolling interests in the three months ended June 30, 2013 was primarily due to a $32.3 million loss allocation from financing funds to which we were selling assets. This loss allocation was partially offset by a $19.4 million income allocation from a financing fund in which in addition to operations in the period, the contractual documents were amended in the period, that resulted in an increased income allocation to the fund investor, and a $3.5 million income allocation to a fund investor in an entity that has a lease pass-through joint venture arrangement with us. The net income allocation to noncontrolling interests in the three months ended June 30, 2012 was primarily due to a reversal of a loss allocation in a prior quarter from a financing fund as U.S. Treasury grants were received and distributed to the fund investor.

Six Months Ended June 30, 2013 and 2012

Revenue

(Dollars in thousands)	Six Months Ended June 30, 2013	2012	Change $	%
Operating leases	$ 35,697	$ 19,667	$ 16,030	82%
Solar energy systems sales	32,240	51,748	(19,508)	(38)%
Total revenue	$ 67,937	$ 71,415	$ (3,478)	(5)%

Total revenue decreased by $3.5 million, or 5%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

Operating leases revenue increased by $16.0 million, or 82%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This increase was attributable to an increase in solar energy systems placed in service under leases and power purchase

agreements between July 1, 2012 and June 30, 2013. The average of the aggregate megawatt production capacity of solar energy systems in service increased by 113%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. However, the impact of the installed base on the increase in revenue varied by the mix between systems under leases and power purchase agreements and also when the systems were placed in service. 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.

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Revenue from sales of solar energy systems decreased by $19.5 million, or 38%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This decrease was primarily due to a $15.9 million decrease in revenue from long-term solar energy system sales contracts, of which $9.0 million of the decrease in revenue related to sales to a specific commercial customer, and a $7.8 million decrease in large commercial solar energy system sales for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. These decreases also partially resulted from a lower average sales price of solar energy systems sold due to a decrease in the cost of solar energy system components that in turn led to a downward impact on the competitive market price of solar energy systems sold. We expect that any further decline in the cost of solar energy system components would continue to similarly impact our average sales price. These decreases were offset in part by an $10.5 million increase in revenue from sales of solar energy systems to the government, a $1.9 million increase in revenue from sales of energy efficiency products and services, to $5.1 million from $3.2 million, and a $0.5 million increase in revenue from sales of solar energy systems to residential customers for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

Cost of Revenue, Gross Profit and Gross Profit Margin

	Six Months Ended June 30,		**Change**	
(Dollars in thousands)	**2013**	**2012**	**$**	**%**
Operating leases	$ 12,726	$ 6,292	$ 6,434	102%
Gross profit of operating leases	22,971	13,375	9,596	72%
Gross profit margin of operating lease revenue	64%	68%		
Solar energy systems	$ 27,036	$ 44,024	$ (16,988)	(39)%
Gross profit of solar energy systems	5,204	7,724	(2,520)	(33)%
Gross profit margin of solar energy systems	16%	15%		
Total cost of revenue	$ 39,762	$ 50,316	$ (10,554)	(21)%
Total gross profit	28,175	21,099	7,076	34%
Total gross profit margin	41%	30%		

Cost of operating leases revenue increased by $6.4 million, or 102%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This increase was primarily due to an increase in the aggregate cost of solar energy systems placed under operating leases that were interconnected and being depreciated.

Cost of sales of solar energy systems decreased by $17.0 million, or 39%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This decrease was in line with decreased sales of solar energy systems. In addition, upfront losses from long-term solar energy system sales contracts decreased by $0.8 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

Operating Expenses

	Six Months Ended June 30,		**Change**	
(Dollars in thousands)	**2013**	**2012**	**$**	**%**
Sales and marketing expense	$ 39,223	$ 31,831	$ 7,392	23%
General and administrative expense	37,794	19,350	18,444	95%
Total operating expenses	$ 77,017	$ 51,181	$ 25,836	50%

Sales and marketing expense increased by $7.4 million, or 23%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This increase was primarily due to the increase in the average number of personnel in sales departments from 422, for the six months ended June 30, 2012, to 744, for the six months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $9.2 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. In addition, referral fees increased by $1.0 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. These increases were partially offset by a $2.8 million decrease in broadcast advertising costs for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

General and administrative expense increased by $18.4 million, or 95%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This increase was due to the increase in the average number of personnel in general and administrative departments from

183, for the six months ended June 30, 2012, to 280, for the six months ended June 30, 2013. As a result of this growth in headcount, employee compensation costs increased by $7.9 million and facilities costs increased by $0.7 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. In addition, the increase in the number of financing funds and general business activity contributed to an increase in legal, audit, and professional fees of $7.8 million for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

Other Income and Expenses

(Dollars in thousands)	Six Months Ended June 30, 2013	2012	Change $	%
Interest expense, net	$ 11,740	$ 8,335	$ 3,405	41%
Other expenses, net	302	10,429	(10,127)	(97)%
Total interest and other expenses, net	$ 12,042	$ 18,764	$ (6,722)	(36)%

Interest expense, net, increased by $3.4 million, or 41%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. Interest expense, net, is comprised of imputed interest on financing obligations of $6.9 million and $4.9 million and interest on bank borrowings, net of interest income on cash balances of $4.8 million and $3.4 million, each as of the six months ended June 30, 2013 and 2012, respectively. This increase was a result of higher carrying balances related to financing obligations and bank borrowings for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

Other expenses, net, decreased by $10.1 million, or 97%, for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. The expense for the six months ended June 30, 2012 was primarily from a change in the fair value of convertible redeemable preferred stock warrants, which were converted to common stock warrants upon the closing of the Company s initial public offering of its common stock in December 2012 and therefore are no longer being revalued.

Net Loss Attributable to Noncontrolling Interests

(Dollars in thousands)	Six Months Ended June 30, 2013	2012	Change $	%
Net loss attributable to noncontrolling interests	$ (5,925)	$ (25,834)	$ 19,909	(77)%

The net loss attributable to noncontrolling interests in the six months ended June 30, 2013 was $5.9 million compared to $25.8 million in the six months ended June 30, 2012. The net loss allocation to noncontrolling interests in the six months ended June 30, 2013 was primarily due to a $49.1 million loss allocation from financing funds to which we were selling assets. This loss allocation was partially offset by a $36.2 million income allocation from a financing fund in which in addition to operations in the period, the contractual documents were amended in the period, that resulted in an increased income allocation to the fund investor, and a $5.8 million income allocation to a fund investor in an entity that has a lease pass-through joint venture arrangement with us. The net loss allocation to noncontrolling interests in the six months ended June 30, 2012 was primarily due to a $25.1 million loss allocation from financing funds to which we were tranching assets.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated cash flows:

	Six Months Ended June 30, 2013	2012
	(in thousands)	
Net cash provided by (used in) operating activities	$ 82,937	$ (38,464)
Net cash used in investing activities	(300,147)	(180,522)
Net cash provided by financing activities	216,736	230,294
Net (decrease) increase in cash and cash equivalents	$ (474)	$ 11,308

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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, and cash generated from our operations. As of June 30, 2013, we had $660.4 million of available commitments from our fund investors, including a $344.0 million financing fund structured as a debt facility, that would be available through our asset monetization strategy.

While we had a net loss for the six months ended June 30, 2013, we believe that our existing cash and cash equivalents, funds available under a secured credit facility and funds available in our existing financing funds that can be drawn down through our asset monetization strategy will be sufficient to meet our cash requirements for at least the next twelve months.

Operating Activities

In the six months ended June 30, 2013, we generated $82.9 million in net cash from operations. This cash inflow primarily resulted from an increase in deferred revenue of $79.9 million related 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, an increase in accounts payable of $14.7 million, an increase in accrued and other liabilities of $31.4 million including $29.6 million received from an investor as a prepayment for monetization of investment tax credits for solar energy systems that will be placed in service after June 30, 2013, and a decrease in inventories of $19.2 million. This cash inflow was offset in part by an increase in prepaid expenses and other current assets of $12.7 million, an increase in incentive rebates receivable of $2.7 million, and a net loss of $60.8 million, reduced by non-cash items such as depreciation and amortization of $16.0 million, stock-based compensation of $9.0 million and interest on lease pass-through obligations of $6.9 million and increased by a reduction in lease pass-through obligations of $14.2 million.

In the six months ended June 30, 2012, we utilized $38.5 million in net cash for operations. This cash outflow primarily resulted from a net loss of $48.9 million, reduced by non-cash items such as depreciation and amortization of $9.0 million, stock-based compensation of $4.7 million, interest on lease pass-through obligations of $4.9 million and changes in the fair values of mandatorily redeemable preferred stock warrants of $9.6 million and increased by a reduction in lease pass-through obligations of $7.3 million. This cash outflow also increased in part due to a decrease in accounts payable of $68.1 million as we paid our suppliers, an increase in accounts receivable of $16.4 million and an increase in other assets of $5.1 million. This cash outflow was offset in part by an increase in deferred revenue of $62.5 million related to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments, an increase in accrued and other liabilities of $21.7 million, and a decrease in inventories of $2.2 million.

Investing Activities

Our investing activities consisted primarily of capital expenditures.

In the six months ended June 30, 2013, we used $300.1 million in investing activities. Of this amount, we used $296.2 million on the design and installation of solar energy systems under operating leases with our customers and $3.9 million on the acquisition of vehicles, office equipment, leasehold improvements and furniture.

In the six months ended June 30, 2012, we used $180.5 million in investing activities. Of this amount, we used $174.6 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and $6.0 million on the acquisition of vehicles, office equipment, leasehold improvements and furniture.

Financing Activities

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

In the six months ended June 30, 2012, we generated $230.3 million from financing activities. We received $80.9 million, net of transaction costs, from the issuance of convertible redeemable preferred stock. We received an additional $60.5 million from long-term debt and $19.4 million from our revolving line of credit. We repaid $18.1 million of long-term debt. We received $48.1 million from U.S. Treasury grants associated with our solar energy systems that we had leased to customers. We also received $123.6 million from fund investors in our lease pass-through financing funds and $21.8 million from fund investors in our joint ventures and paid distributions to fund investors of $91.3 million.

Secured Credit Agreements and Financing Fund Commitments

There have been no material changes to our secured credit agreements and financing fund commitments during the six months ended June 30, 2013 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2012 other than as noted under Liquidity and Capital Resources above and as noted below.

In February 2013, one of our subsidiaries entered into an agreement with a bank for a term loan of $10.0 million. The loan proceeds were used to finance our acquisition of a fund investor s interests in three of our financing funds. The loan bears interest at an annual rate equal to the lower of (i) the sum of LIBOR plus 3.25% and (ii) an interest rate cap of 6.50%. As of June 30, 2013, the interest rate for the loan was 3.44%. The loan is secured by the assets of certain of our subsidiaries and is nonrecourse to our other assets. The loan matures on January 31, 2015. As of June 30, 2013, we had $8.1 million outstanding under the loan and were in compliance with all debt covenants.

In February 2013, we formed a new financing fund with a new investor into which the fund investor will contribute up to $25.0 million. In April 2013, we amended the contractual terms of an existing financing fund to increase the available funding by $75.0 million. In May 2013, we formed a new financing fund with a new investor into which the fund investor will contribute up to $100.0 million. In June 2013, we formed a new financing fund with a new investor into which the fund investor will contribute up to $75.0 million. On June 7, 2013, one of our subsidiaries entered into an agreement with a syndicate of banks for a term loan of $100.0 million for working capital. The loan bears interest at an annual rate equal to LIBOR plus 3.25%. As of June 30, 2013, the interest rate for the loan was 3.44%. The loan is secured by the assets and future cash inflows of our subsidiary and is nonrecourse to our other assets. The loan matures on June 7, 2015. As of June 30, 2013, we had $17.7 million outstanding under the loan and were in compliance with all debt covenants.

Off-Balance Sheet Arrangements

We include in our condensed consolidated financial statements all assets, liabilities and results of operations of financing fund arrangements that we have entered into. We have not entered into any other transactions that have generated unconsolidated entities, financial partnerships or special purpose entities. 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.

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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 rate plus a specified margin. We manage 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.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and other operating expenses and reducing our funds available for capital investment, operations or other purposes. In addition, we must use a substantial portion of our cash flow to service debt, which may affect our ability to make future acquisitions or capital expenditures. A hypothetical 10% change in our interest rates would have increased the interest expense recorded by $0.2 million and $0.3 million for the six months ended June 30, 2013 and 2012, 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 pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act). 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.

Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2013, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a 15(d) and 15d 15(d) of the Exchange Act that occurred during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this quarterly report on Form 10-Q, including our condensed consolidated financial statements and related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to our Business

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

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter 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 them 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. Any similar government or utility policies adopted in the future could reduce demand for our products and services and adversely impact our growth.

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

Forty-three states and Washington, D.C. have a regulatory policy known as net energy metering, or net metering. Each of the states where we currently serve customers has adopted a net metering policy except for Texas, where certain individual utilities have adopted net metering or a policy similar to net metering. Net metering typically allows our customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility s retail rate for energy generated by their solar energy system in excess of electric load that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Utilities operating in states without a net metering policy may receive solar electricity that is exported to the grid at times when there is no simultaneous energy demand by the customer to utilize the generation onsite without providing retail compensation to the customer for this generation. Our ability to sell solar energy systems or the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering in states that have implemented it, the failure to adopt a net metering policy where it currently is not in place or the imposition of new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the electricity they generate also may be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

Limits on net metering, interconnection of solar energy systems and other operational policies in key markets could limit the number of solar energy systems installed there. For example, California utilities are currently required to provide net metering to their customers until the total generating capacity of net metered systems exceeds 5% of the utilities aggregate customer peak demand. This cap on net metering in California was increased to 5% in 2010 as utilities neared the prior cap of 2.5%. If the current net metering caps in California, or other jurisdictions, are reached, 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. The absence of net metering for new customers would greatly limit demand for our solar energy systems.

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

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to lower our cost of capital and to 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 Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. This credit is due to adjust to 10% in 2017. Solar energy systems that began construction prior to the end of 2011 were eligible to receive a 30% federal cash grant paid by the U.S. Treasury Department under Section 1603 of the American Recovery and Reinvestment Act of 2009, or the U.S. Treasury grant, in lieu of the Federal ITC. Pursuant to the Budget Control Act of 2011, U.S. Treasury grants are subject to sequestration beginning in 2013. Specifically, U.S. Treasury grants made on or after March 1, 2013 through September 30, 2013 will be reduced by 8.7%, regardless of when the U.S. Treasury received the application. As a result, for all applications pending or to be submitted as of June 30, 2013, we expect to suffer grant shortfalls of approximately $3.9 million associated with our financing funds. The sequestration reduction rate is subject to change at the federal government s fiscal year end of September 30, 2013. In addition, applicable authorities may adjust or decrease incentives from time to time or include provisions for minimum domestic content requirements or other requirements to qualify for these incentives.

Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our results of operations and ability to compete in our industry by increasing our cost of capital, causing us to increase the prices of our energy and solar energy systems, and reducing the size of our addressable market. In addition, this would adversely impact our ability to attract investment partners and to form new financing funds and our ability to offer attractive financing to prospective customers. For the quarter ended June 30, 2013, more than 96% of new customers chose to enter into financed lease or power purchase agreements rather than buying a solar energy system for cash.

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

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

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

In July 2012, we and other companies with significant market share, and other companies related to the solar industry, 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. We anticipate at least three months will be required to complete the gathering and production of the information requested by the Inspector General, and that the Inspector General will require at least another year 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 such 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 either of these circumstances to be less than we reported, we may owe the 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. As we previously disclosed in our Form S-1 dated June 18, 2013, from time to time the U.S. Treasury Department has determined in some instances to award us 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. Subsequent to our Form 10-K filing, the U.S. Treasury Department has made similar determinations with respect to additional grant applications. As a result of these actions by the U.S. Treasury Department, based on the number of such systems that we have placed in service and that we plan to place in service using funds contributed by investors to our financing funds currently, we estimate that we would be obligated to pay the investors approximately $10.7 million to compensate them for the anticipated shortfall in grants. In response to such shortfalls, two of our financing funds recently 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 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 the company to subsequently pay those 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 $501.0 million of U.S. Department of Treasury grant applications that have been awarded from the beginning of the U.S. Treasury grant program through June 30, 2013 would obligate us to repay approximately $25.1 million to our fund investors.

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

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

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

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

- the state of financial and credit markets;

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

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

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

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

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

In the past, we encountered challenges raising new funds, which caused us to delay deployment of a substantial number of solar energy systems for which we had signed leases or power purchase agreements with customers. For example, in late 2008 and early 2009, as a result of the state of the capital markets, our ability to finance the installation of solar energy systems was limited and resulted in a significant backlog of signed sales orders for solar energy systems. Our future ability to obtain additional financing depends on banks and other financing sources continued confidence in our business model and the renewable energy industry as a whole. It could also be impacted by the liquidity needs of such financing sources themselves. If we experience higher customer default rates than we currently experience in our existing financing funds or 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.

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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.

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, 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.

Rising interest rates could adversely impact our business.

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

- rising interest rates would increase our cost of capital; and
- rising interest rates may negatively impact our ability to secure financing on favorable terms to facilitate our customers purchase of our solar energy systems or energy generated by our solar energy systems.

The majority of our cash flows to date have been from solar energy systems under lease and power purchase agreements that have been monetized under various financing fund structures. One of the components of this monetization is the present value of the payment streams from

the customers who enter into these leases and power purchase agreements. If the rate of return required by the fund investor rises as a result of a rise in interest rates, it will reduce the present value of the customer payment stream and consequently reduce the total value derived from this monetization. Rising interest rates could harm our business and financial condition.

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

We have guaranteed to make 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 depends 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 funds 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.

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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.

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 and delivery of energy products and services. 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.

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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.

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 energy efficiency line of products and services in mid-2010, 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 new energy efficiency products and services or from any additional energy-related 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 166.3 million as of June 30, 2013. 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. 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. If our competitors develop an integrated approach similar to ours including sales, financing, engineering, installation, monitoring and efficiency services, this will reduce our marketplace differentiation.

We also face competition in the energy efficiency market and we expect to face competition in additional markets as we introduce new energy-related 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.

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 audits of our consolidated financial statements for 2010 and 2011 we identified material weaknesses in our internal control over financial reporting and inventory processes. 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 an aggregation of deficiencies.

The accounting policies associated with our financing funds are complex, which contributed to the material weaknesses in our internal control over financial reporting. 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 restatement of 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, 2010 and 2011. We are in the process of implementing policies and processes to remediate these material weaknesses and improve our internal control over financial reporting.

We have not performed an evaluation of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act, nor have we engaged our independent registered public accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date or for any period reported in our financial statements. Had we performed such an evaluation or had our independent registered public accounting firm performed an audit of our internal control over financial reporting, material weaknesses, in addition to those discussed above, may have been identified. For so long as we qualify as an emerging growth company under the JOBS Act, we will not have to provide an auditor s attestation report on our internal controls in future annual reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. During the course of the evaluation, documentation or attestation, we or our independent registered public accounting firm may identify weaknesses and deficiencies that we may not otherwise identify in a timely manner or at all as a result of the deferred implementation of this additional level of review.

We have taken numerous steps to address the underlying causes of the control deficiencies referenced above, primarily through the development and implementation of policies, improved processes and documented procedures, and the hiring of additional accounting and finance personnel with technical accounting, inventory accounting and financial reporting experience. If we fail to remediate deficiencies in our control environment or are unable to implement and maintain effective internal control over financial reporting to meet the demands that are placed upon us as a public company, we may be unable to accurately report our financial results, or report them within the timeframes required by law or exchange regulations.

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We cannot assure you that we will be able to remediate our existing material weaknesses in a timely manner, if at all, or that in the future additional material weaknesses will not exist or otherwise be discovered, a risk that is significantly increased in light of the complexity of our business. If our efforts to remediate these material weaknesses are not successful or if other deficiencies occur, our ability to accurately and timely report our financial position, results of operations, cash flows or key operating metrics could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, 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 Market, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

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

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

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

We purchase solar panels, inverters and other system components from a limited number of suppliers, making us susceptible to quality issues, shortages and price changes. If we fail to develop, maintain and expand our relationships with these or other suppliers, we may be unable to adequately meet anticipated demand for our solar energy systems, or we may only be able to offer our systems at higher costs or after delays. If one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production, we may be unable to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and we may be unable to satisfy this demand. In particular, there are a limited number of inverter suppliers. Once we design a system for use with a particular inverter, if that type of inverter is not readily available at an anticipated price, we may incur additional delay and expense to redesign the system. There have also been periods of industry-wide shortage of key components, including solar panels, in times of rapid industry growth. The manufacturing infrastructure for some of these components has a long lead time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. Any decline in the exchange rate of the U.S. dollar compared to the functional currency of our component suppliers could increase our component prices. In addition, the U.S. government has imposed tariffs on solar cells manufactured in China. Based on determinations by the U.S. government, the applicable anti-dumping and countervailing tariff rates range from approximately 8%-255%. Such anti-dumping and countervailing tariffs are subject to annual review and can be increased if deemed necessary. Because we currently purchase solar panels containing cells manufactured outside of China, we currently are not materially impacted by the tariffs. However, if in the future we purchase solar panels containing cells manufactured in China, our purchase price would reflect the tariff penalties mentioned above. Any of these shortages, delays or price changes could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand.

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

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

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

- the expiration or initiation of any rebates or incentives;
- significant fluctuations in customer demand for our products and services;
- our ability to complete installations in a timely manner due to market conditions resulting in inconsistently available financing;
- our ability to continue to expand our operations, and the amount and timing of expenditures related to this expansion;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- changes in our pricing policies or terms or those of our competitors, including utilities; and
- actual or anticipated developments in our competitors businesses or the competitive landscape.

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

Our business has benefited from the declining cost of solar panels, and our financial results may be harmed now that the cost of solar panels has stabilized and could increase in the future.

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. Now that solar panel and raw materials prices have stabilized and could increase in the future, our growth could slow and our financial results could suffer. In addition, in the past we have purchased a significant portion of the solar panels used in our solar energy systems from manufacturers based in China, some of whom benefit from favorable foreign regulatory regimes and governmental support, including subsidies. If this support were to decrease or be eliminated, or if tariffs imposed by the U.S. government were to increase the prices of these solar panels, our ability to purchase these products on competitive terms or to access specialized technologies from those countries could be restricted. Any of those events could harm our financial results by requiring us to pay higher prices or to purchase solar panels or other system components from alternative, higher-priced sources. In addition, the U.S. government has imposed tariffs on solar cells manufactured in China. These tariffs will increase the price of solar panels containing these Chinese-manufactured cells, which may harm our financial results in the event we purchase such panels.

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

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

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings as part of our energy efficiency business 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 900 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 cause our financial results to decline.

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

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

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

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

If one of our solar energy systems or other products injured someone we would be exposed to product liability claims. Because solar energy systems and many of our other current and anticipated products are electricity producing devices, it is possible that consumers could be injured by our products, whether by product malfunctions, defects, improper installation or other causes. We rely on our general liability insurance to cover product liability claims and have not obtained separate product liability insurance. Any product liability claim we face could be expensive to defend and divert management s attention. The successful assertion of product liability claims against us could result in potentially significant monetary damages that could require us to make significant payments, as well as subject us to adverse publicity, damage our reputation and competitive position. Also, any product liability claims and any adverse outcomes may subject us to adverse publicity, damage our reputation and competitive position and adversely affect sales of our systems and other products.

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

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

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.

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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. We launched our energy efficiency line of products and services in mid-2010, and revenue attributable to this line of business has not been material compared to revenue attributable to our solar energy systems. Customer demand for these offerings may be more limited than we anticipate. In addition, several of our other energy products and services, including our battery storage solutions, are in the early stages of testing and development. 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 strategy to implement a new sales approach of facilitating energy efficiency upgrades through trusted third-party vendors in lieu of performing these upgrades ourselves is 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 operations officer, chief technology officer and co-founder, Peter J. Rive. We also depend on our ability to retain and motivate key employees and attract qualified new employees. Neither our founders nor our key employees are bound by employment agreements for any specific term, and we may be unable to replace key members of our management team and key employees in the event we lose their services. Integrating new employees into our management team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to attract and retain sufficient managerial personnel who have critical industry experience and relationships could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition and results of operations.

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

We believe that the success of our business depends in part on our proprietary technology, including our software, information, processes and know-how. We rely on trade secret and patent protections to secure our intellectual property rights. We cannot be certain that we have adequately protected or will be able to adequately protect our proprietary technology, that our competitors will not be able to utilize our existing technology or develop similar technology independently, that the claims allowed with respect to any patents held by us will be broad enough to protect our technology or that foreign intellectual property laws will adequately protect our intellectual property rights. Moreover, we cannot be certain that our patents provide us with a competitive advantage. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our consent. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. In the future, some of our products could be alleged to infringe existing patents or other intellectual property of third parties, and we cannot be certain that we will prevail in any intellectual property dispute. In addition, any future litigation required to enforce our patents, to protect our trade secrets or know-how or to defend us or indemnify others against claimed infringement of the rights of others could harm our business, financial condition and results of operations.

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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 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.

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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.

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 borrow up to $100.0 million (with $75.0 million currently committed from several lenders and an additional $25.0 million subject to further conditions) that matures in September 2014, a $58.5 million term loan credit facility for the purchase of inventory and working capital needs that matures in August 2013, and a $7.0 million term facility to finance the purchase of vehicles that matures in the first quarter of 2015. Each 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, which also could trigger defaults under our other credit agreements. For example, on April 30, 2012 and May 31, 2012, we did not meet a financial ratio covenant, and on June 30, 2012, we breached a financial covenant related to non-GAAP EBITDA under our prior working capital facility, which also resulted in a default under a separate vehicle financing facility with the same administrative bank agent. The bank waived these breaches, and in September 2012 we refinanced all amounts borrowed under the prior working capital facility with the $100.0 million working capital facility described above. In May 2013, we executed amendments to two of our 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. Concurrently with our proposed convertible note offering, we have amended the debt service coverage ratio in all three of our secured credit facilities to limit debt service to only cash interest charges. We believe that some of the financial and other covenants are generally more favorable to us than those in the prior working capital facility, however a breach of these 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.

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 has ranged from $9.20 to $52.77 per share, through August 5, 2013. 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:

- addition or loss of significant customers;
- changes in laws or regulations applicable to our industry, products or services;

additions or departures of key personnel;

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;

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- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us or our stockholders;
- the expiration of contractual lock-up agreements;
- litigation involving us, our industry or both;
- major catastrophic events; and
- general economic and market conditions and trends.

Further, 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, 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.

As an emerging growth company within the meaning of the Securities Act, we will utilize certain modified disclosure requirements, and we cannot be certain if these reduced requirements will make our common stock less attractive to investors.

We are an emerging growth company within the meaning of the rules under the Securities Act. We have in this quarterly report on Form 10-Q utilized, and we plan in future filings with the SEC to continue to utilize, the modified disclosure requirements available to emerging growth companies, including reduced disclosure about our executive compensation and omission of compensation discussion and analysis, and an exemption from the requirement of holding a nonbinding advisory vote on executive compensation. In addition, we will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act, including the additional testing of our internal control over financial reporting as may occur when outside auditors attest as to our internal control over financial reporting, and we have elected to delay adoption of new or revised accounting standards applicable to public companies. As a result, our stockholders may not have access to certain information they may deem important.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to utilize this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards as they become applicable to public companies. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We could remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceed $1 billion, (ii) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period.

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

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.

We have currently filed registration statements for a convertible note offering and a concurrent share lending transaction. Upon completion of these proposed transactions, we will have approximately 81.1 million outstanding shares of common stock based on the number of shares outstanding as of June 30, 2013 and assuming no exercise of outstanding options after June 30, 2013. Holders of up to approximately 51.9 million of these shares will be 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.

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

As of June 30, 2013, 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 70.0% 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 change their recommendations regarding our stock adversely, 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 change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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

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

ITEM 6. EXHIBITS

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

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SIGNATURES

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

Date: August 9, 2013

SOLARCITY CORPORATION

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

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.6e+	Amendment to Term Loan Agreement and Revolving Credit Agreement, dated as of August 15, 2012, between the Company and U.S. Bank National Association.
10.6f+	Fifth Amendment to Term Loan Agreement, dated as of October 12, 2012, between the Company and U.S. Bank National Association.
10.6g+	Amendment to Term Loan Agreement, dated as of May 9, 2013, between the Company and U.S. Bank National Association.
10.6h+	Sixth Amendment to Term Loan Agreement, dated as of June 18, 2013, between the Company and U.S. Bank National Association.
10.8a+	Amendment to Credit Agreement, dated as of October 12, 2012, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.8b+	Amendment to Credit Agreement, dated as of December 31, 2012, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.8c+	Amendment Number One to Credit Agreement, dated as of June 18, 2013, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.10a+	Amendment to Credit Agreement, dated as of October 12, 2012, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.10b+	Amendment to Credit Agreement, dated as of November 9, 2012, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.10c+	Amendment to Credit Agreement, dated as of December 31, 2012, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.10d+	Amendment Number One to Credit Agreement, dated as of June 18, 2013, among the Company, Bank of America, N.A., as Administrative Agent and the lenders party thereto.
10.12*	Loan Agreement among AU Solar 1, LLC (an indirect wholly owned subsidiary of the Registrant), as borrower, Credit Suisse Securities (USA) LLC, ING Capital LLC and Rabobank, N.A., as joint lead arrangers, Credit Suisse AG, Cayman Islands Branch, as collateral agent and administrative agent, and the lenders parties thereto, dated as of June 7, 2013.
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Schema Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Labels Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

*

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

\+ Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on June 24, 2013.

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The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of SolarCity Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.
XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.