SOLARCITY CORP
Form 10-Q
May 06, 2015

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 March 31, 2015

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 x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The number of shares outstanding of the registrant's common stock as of March 31, 2015 was 96,855,648.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SolarCity Corporation

Condensed Consolidated Balance Sheets

(In Thousands, Except Share Par Values)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$446,683	$504,383
Short-term investments	129,166	138,311
Restricted cash	10,395	20,875
Accounts receivable (net of allowances for doubtful accounts of $2,364 and $1,941 as of March 31, 2015 and December 31, 2014, respectively)	25,591	22,708
Rebates receivable - net	27,279	30,021
Inventories	227,676	217,223
Deferred income tax asset	12,469	13,149
Prepaid expenses and other current assets	65,442	55,729
Total current assets	944,701	1,002,399
Solar energy systems, leased and to be leased - net	3,073,600	2,796,796
Property, plant and equipment - net	163,048	101,914
Goodwill and intangible assets - net	531,470	539,557
MyPower customer notes receivable, net of current portion	138,316	34,544
MyPower deferred costs	60,746	13,147
Other assets	129,084	97,854
Total assets(1)	$5,040,965	$4,586,211
Liabilities and equity		
Current liabilities:		
Accounts payable	$216,807	$237,809
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	9,065	8,552
Current portion of deferred U.S. Treasury grant income	15,330	15,330
Accrued and other current liabilities	185,119	152,408
Customer deposits	7,815	10,560
Current portion of deferred revenue	90,009	86,238
Current portion of long-term debt	11,712	11,781

Current portion of solar bonds	1,658	820
Current portion of solar bonds issued to related parties	90,330	330
Current portion of solar asset-backed notes	12,510	13,574
Current portion of financing obligation	30,778	29,689
Total current liabilities	671,133	567,091
Deferred revenue, net of current portion	662,776	557,408
Long-term debt, net of current portion	467,738	287,621
Solar bonds, net of current portion	7,982	2,593
Solar bonds issued to related parties, net of current portion	200	200
Convertible senior notes	796,000	796,000
Solar asset-backed notes, net of current portion	299,646	304,393
Long-term deferred tax liability	12,518	13,194
Financing obligation, net of current portion	65,248	73,379
Deferred U.S. Treasury grant income, net of current portion	393,637	397,486
Other liabilities and deferred credits	281,606	244,474
Total liabilities(1)	3,658,484	3,243,839
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests in subsidiaries	246,492	186,788
Stockholders' equity:		
Common stock, $0.0001 par value - authorized, 1,000,000 shares as of March 31, 2015 and December 31, 2014; issued and outstanding, 96,856 and 96,521 shares as of March 31, 2015 and December 31, 2014, respectively	10	10
Additional paid-in capital	1,032,090	1,003,992
Accumulated deficit	(279,885)	(258,360)
Total stockholders' equity	752,215	745,642
Noncontrolling interests in subsidiaries	383,774	409,942
Total equity	1,135,989	1,155,584
Total liabilities and equity	$5,040,965	$4,586,211

(1) SolarCity Corporation's, or the Company's, consolidated assets as of March 31, 2015 and December 31, 2014 include $1,892,232 and $1,672,370, respectively, being assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. These assets include solar energy systems, leased and to be leased-net, of $1,799,266 and $1,581,459 as of March 31, 2015 and December 31, 2014, respectively; property, plant and equipment-net, of $24,437 and $24,286 as of March 31, 2015 and December 31, 2014, respectively; cash and cash equivalents of $29,228 and $27,820 as of March 31, 2015 and December 31, 2014, respectively; inventory, of $1,112 and $614 as of March 31, 2015 and December 31, 2014, respectively; restricted cash, current, of $487 and $106 as of March 31, 2015 and December 31, 2014, respectively; accounts receivable, net, of $9,891 and $6,769 as of March 31, 2015 and December 31, 2014, respectively; prepaid expenses and other current assets of $1,156 and $1,839 as of March 31, 2015 and December 31, 2014, respectively; rebates receivable of $21,686 and $25,397 as of March 31, 2015 and December 31, 2014, respectively; restricted cash, noncurrent, of $254 and $300 as of March 31, 2015 and December 31, 2014, respectively; and other assets of $4,715 and $3,780 as of March 31, 2015 and December 31, 2014, respectively. The Company's consolidated liabilities as of March 31, 2015 and December 31, 2014 include $27,349 and $27,808, respectively, being liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries of $9,065 and $8,552 as of March 31, 2015 and December 31, 2014, respectively; accounts payable of $2,896 and $2,748 as of March 31, 2015 and December 31, 2014, respectively; customer deposits of $4,771 and $6,405 as of March 31, 2015 and December 31, 2014, respectively; accrued liabilities and other payables of $1,457 and $969 as of March 31, 2015 and December 31, 2014, respectively; and current portion of long-term debt of $9,160 and $9,134 as of March 31, 2015 and December 31, 2014, respectively.

See further description in Note 6, VIE Arrangements.

See accompanying notes.

SolarCity Corporation

Condensed Consolidated Statements of Operations

(In Thousands, Except Share and Per Share Amounts)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Operating leases and solar energy systems incentives	$54,771	$29,072
Solar energy systems and components sales	12,708	34,474
Total revenue	67,479	63,546
Cost of revenue:		
Operating leases and solar energy systems incentives	32,260	15,979
Solar energy systems and components sales	13,460	32,782
Total cost of revenue	45,720	48,761
Gross profit	21,759	14,785
Operating expenses:		
Sales and marketing	86,671	46,850
General and administrative	48,654	33,011
Research and development	12,120	1,923
Total operating expenses	147,445	81,784
Loss from operations	(125,686)	(66,999)
Interest expense - net	18,521	7,979
Other expense - net	2,104	25
Loss before income taxes	(146,311)	(75,003)
Income tax provision	(626)	(215)
Net loss	(146,937)	(75,218)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(125,412)	(51,155)
Net loss attributable to stockholders	$(21,525)	$(24,063)
Net loss attributable to common stockholders		
Basic	$(21,525)	$(24,063)
Diluted	$(21,525)	$(24,063)
Net loss per share attributable to common stockholders		
Basic	$(0.22)	$(0.26)
Diluted	$(0.22)	$(0.26)
Weighted average shares used to compute net loss per share attributable to common stockholders		
Basic	96,680,069	91,412,126
Diluted	96,680,069	91,412,126

See accompanying notes.

SolarCity Corporation

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Three Months Ended March 31, 2015	2014
Operating activities:		
Net loss	$(146,937)	$(75,218)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of property, plant and equipment and construction in progress	66	626
Depreciation and amortization	36,351	18,989
Non cash interest and other expense	3,782	1,392
Stock-based compensation, net of amounts capitalized	18,361	12,847
Deferred income taxes	4	4
Reduction in financing obligation	(10,570)	(10,282)
Changes in operating assets and liabilities:		
Restricted cash	7,992	12,810
Accounts receivable	(2,883)	(2,860)
Rebates receivable	2,742	(3,269)
Inventories	(10,107)	5,181
Prepaid expenses and other current assets	(7,695)	(8,114)
MyPower deferred costs	(47,603)	—
Other assets	(10,292)	(564)
Accounts payable	(22,957)	(22,680)
Accrued and other liabilities	15,864	(7,377)
Customer deposits	(2,745)	(3,230)
Deferred revenue	5,345	58,437
Net cash used in operating activities	(171,282)	(23,308)
Investing activities:		
Payments for the cost of solar energy systems, leased and to be leased	(294,998)	(187,383)
Purchase of property, plant and equipment	(30,497)	(4,741)
Purchases of short-term investments	(44,592)	—
Proceeds from sales and maturities of short-term investments	53,308	—
Payments to acquire redeemable noncontrolling interest in a subsidiary	—	(450)
Net cash used in investing activities	(316,779)	(192,574)

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	Three Months Ended March 31, 2015	2014
Financing activities:		
Investment fund financings, bank and other borrowings:		
Borrowings under long-term debt	178,082	100,541
Repayments of long-term debt	(752)	(50,960)
Proceeds from issuance of solar bonds	6,227	—
Proceeds from issuance of solar bonds issued to related parties	90,000	—
Repayments of borrowings under solar asset-backed notes	(5,817)	(671)
Payment of deferred purchase consideration	(1,249)	(957)
Proceeds from financing obligation	6,392	7,740
Repayments of financing obligation	(4,912)	(6,454)
Repayment of capital lease obligations	(716)	(382)
Proceeds from investment by noncontrolling interests and redeemable noncontrolling interests in subsidiaries	176,318	113,393
Distributions paid to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(16,857)	(9,273)
Proceeds from U.S. Treasury grants	—	243
Net cash provided by financing activities before equity and convertible notes issuances	426,716	153,220
Equity and convertible notes issuances:		
Proceeds from exercise of stock options	3,645	5,133
Net cash provided by equity and convertible notes issuances	3,645	5,133
Net cash provided by financing activities	430,361	158,353
Net decrease in cash and cash equivalents	(57,700)	(57,529)
Cash and cash equivalents, beginning of period	504,383	577,080
Cash and cash equivalents, end of period	$446,683	$519,551
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$8,427	$3,008
Cash paid (received) during the period for taxes	$70	$(589)

See accompanying notes.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies and Procedures

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. In accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 810, Consolidation , the Company consolidates any variable interest entity, or VIE, of which it is the primary beneficiary. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company does not consolidate a VIE in which it has a majority ownership interest when the Company is not considered the primary beneficiary. The Company has determined that it is the primary beneficiary of a number of VIEs (see Note 6, VIE Arrangements). The Company evaluates its relationships with all 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.

The Company and its subsidiaries' fiscal quarters and years are the same as calendar quarters and years except for one subsidiary, Silevo, Inc., or Silevo, which continues to have fiscal quarters based on 13-week periods and fiscal years based on 52-week periods. Silevo's first fiscal quarter of 2015 began on December 28, 2014 and ended on March 28, 2015, and it did not have any material activity after March 28, 2015 and through March 31, 2015.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

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. Management regularly makes significant estimates and assumptions regarding the selling price of undelivered elements for revenue recognition purposes, the collectability of accounts and rebates receivable, the valuation of inventories, the labor costs for long-term contracts used as a basis for determining the percentage of completion for such contracts, the fair values and residual values of solar energy systems subject to leases, the accounting for business combinations, the fair values and useful lives of acquired tangible and intangible assets, the fair value of debt assumed under business combinations, the fair value of contingent consideration payable under business combinations, the fair value of short-term investments, the useful lives of solar energy systems, property, plant and equipment, the determination of accrued warranty, the determination of accrued performance guarantee, the determination of lease pass-through financing obligations, the discount rates used to determine the fair values of investment tax credits, the valuation of stock-based compensation, the determination of valuation allowances associated with deferred tax assets, asset impairment and other items. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

Short-Term Investments

The Company’s short-term investments are comprised of corporate debt securities and asset-backed securities. The Company classifies short-term investments as available-for-sale and carries them at fair value, with any unrealized gains or losses recognized as other comprehensive income or loss in the condensed consolidated balance sheets. The specific identification method is used to determine the cost of any securities disposed of, with any realized gains or losses recognized as other income or expense in the condensed consolidated statements of operations. Short-term investments are anticipated to be used for current operations and are, therefore, classified as current assets even though their maturities may extend beyond one year. The Company periodically reviews short-term investments for impairment. In the event a decline in value is determined to be other-than-temporary, an impairment loss is recognized. When determining if a decline in value is other-than-temporary, the Company takes into consideration the current market

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

conditions and the duration and severity of and the reason for the decline, as well as the likelihood that it would need to sell the security prior to a recovery of par value.

As of March 31, 2015, short-term investments were comprised of $115.0 million of corporate debt securities and $14.2 million of asset-backed securities. The costs of these securities approximated their fair values, and there were no material gross realized or unrealized gains, gross realized or unrealized losses or impairment losses recognized for the three months ended March 31, 2015. As of March 31, 2015, all short-term investments were scheduled to mature within the next twelve months.

Fair Value of Financial Instruments

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

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

- Level 1—Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of March 31, 2015, the assets and liabilities carried at fair value on a recurring basis included cash equivalents, short-term investments and contingent consideration.

As of March 31, 2015, the fair value of the Company’s cash equivalents, short-term investments and contingent consideration were as follows (in thousands):

	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	$43,082	$—	$—
Term deposits	$—	$3,001	$—
Short-term investments:			
Corporate debt securities	$—	$115,033	$—
Asset-backed securities	$—	$14,133	$—
Liabilities:			
Contingent consideration	$—	$—	$118,931

The Company classified its money market funds within Level 1 because their fair values are based on their quoted market prices. The Company classified its term deposits, corporate debt securities and asset-backed securities within Level 2 because their fair values are determined using alternative pricing sources or models that utilized market observable inputs to determine their fair values. The Company classified its contingent consideration within Level 3 because their fair values are determined using unobservable probability estimates and unobservable estimated discount rates applicable to the acquisition to determine the fair value. Furthermore, during the three months ended March 31, 2015, there were no transfers between the levels of the fair value hierarchy.

The contingent consideration is dependent on the achievement of specified production milestones for the acquired business. The fair value of the contingent consideration is directly proportional to the estimated probabilities of achievement of these milestones. As of March 31, 2015, the estimated probabilities ranged from 90% to 95%, the estimated discount rates ranged from 5.0% to 7.0%, $42.5 million was included under accrued and other current liabilities on the condensed consolidated balance sheets and $76.4 million was included under other liabilities and deferred credits on the condensed consolidated balance sheets.

The following table summarizes the activity of the Level 3 contingent consideration balance in the three months ended March 31, 2015 (in thousands):

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

Balance - beginning of the period	$117,197
Change in fair value recorded in other expense - net	1,734
Balance - end of the period	$118,931

The Company's financial instruments that are not re-measured at fair value include accounts receivable, customer notes receivable, rebates receivable, accounts payable, customer deposits, distributions payable to noncontrolling interests and redeemable noncontrolling interests, the participation interest, solar asset-backed notes, convertible senior notes, Solar Bonds and long-term debt. The carrying values of these financial instruments other than customer notes receivable, the participation interest, solar asset-backed notes, convertible senior notes, Solar Bonds and long-term debt approximate their fair values due to the fact that they were short-term in nature at March 31, 2015 and December 31, 2014 (Level 1).

The Company estimates the fair value of convertible senior notes based on their last actively traded prices (Level 1). The Company estimates the fair value of customer notes receivable, the participation interest, solar asset-backed notes, Solar Bonds and long-term debt based on rates currently offered for instruments with similar maturities and terms (Level 3).

The following table presents the estimated fair values of the participation interest, solar asset-backed notes and convertible senior notes (in thousands):

	March 31, 2015	December 31, 2014
Participation interest	$14,259	$14,102
Solar asset-backed notes	$320,756	$328,313
Convertible senior notes	$745,100	$752,176

The Company has estimated the fair value of customer notes receivable, Solar Bonds and long-term debt to approximate their carrying values based on rates currently offered for instruments with similar maturities and terms.

Customer Notes Receivable

In determining the allowance and credit quality for customer loans under MyPower, the Company identifies significant customers with known disputes or collection issues and considers its historical level of credit losses and current economic trends that might impact the level of future credit losses. Customer notes receivable that are individually impaired are charged-off as a write-off of allowance for losses. As of March 31, 2015, there were no significant customers with known disputes or collection issues, and the amount of potentially uncollectible amounts was also insignificant. Accordingly, the Company did not establish an allowance for losses against customer notes receivable. In addition, there were no non-accrual or past due customer notes receivable as of March 31, 2015.

Deferred Revenue and Deferred Costs under MyPower Contracts

For solar energy systems sold under a MyPower contract, the Company initially defers the revenue associated with the sale of a solar energy system when it delivers a system that has passed inspection by the utility or the authority having jurisdiction. The Company recognizes revenue for the system on a cash basis over the term of the contract as the customer pays the loan's principal and interest. The deferred revenue is included in the condensed consolidated balance sheets under current portion of deferred revenue for the portion expected to be recognized as revenue in the next 12 months, and the non-current portion is included under deferred revenue, net of current portion. The Company records a note receivable when the customer secures a loan, issued by a subsidiary of the Company, to finance the solar energy system purchase.

MyPower deferred revenue activity was as follows (in thousands):

	As of and for the Three Months Ended March 31, 2015
Balance - beginning of the period	$ 33,651
MyPower systems delivered under executed contracts	96,857
MyPower revenue recognized within solar energy systems and components sales	(1,013)
Balance - end of the period	$ 129,495

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SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

Of the balance outstanding as of March 31, 2015, $1.0 million is included in the condensed consolidated balance sheet under current portion of deferred revenue. The balances in the table above do not include $9.8 million allocated to remote monitoring services and $2.0 million allocated to sales taxes.

The costs associated with solar energy systems sold under MyPower contracts, including the costs of acquisition of solar energy systems component, personnel costs associated with system installations and costs to originate the contracts such as sales commissions, referral fees and some incremental contract administration costs, are initially capitalized as deferred costs. Subsequently these costs are recognized as a component of cost of revenue from solar energy systems and components sales for the costs associated with system components and installation, or as a component of operating expenses for costs associated with contract origination, generally in proportion to the reduction of the MyPower loan's outstanding principal over 30 years. The deferred cost is included in the condensed consolidated balance sheets under prepaid expenses and other current assets for the portion expected to be recognized in the condensed consolidated income statement in the next twelve months, and the non-current portion is included under other assets. MyPower deferred costs activity was as follows (in thousands):

	As of and for the Three Months Ended March 31, 2015
Balance - beginning of the period	$ 13,571
MyPower systems delivered under executed contracts(1)	48,056
MyPower cost of revenue within solar energy systems and components sales	(454)
Balance - end of the period	$ 61,173

(1) Included in MyPower systems delivered under executed contracts was $6.2 million of MyPower contract origination costs incurred in the three months ended March 31, 2015.

Of the balance outstanding as of March 31, 2015, $0.4 million is included in the condensed consolidated balance sheet under prepaid and current assets.

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, including sales under MyPower contracts, of typically between 10 to 30 years. The manufacturer's warranty on the solar energy systems' components, which is typically passed-through to customers, ranges from 1 to 25 years.

The changes in the accrued warranty balance, recorded as a component of accrued and other current liabilities on the condensed consolidated balance sheets, consisted of the following (in thousands):

	As of and for the Three Months Ended March 31, 2015
Balance - beginning of the period	$ 8,607
Reduction in liability (payments)	(43)
Increase in liability (new customer warranties)	6,936
Balance - end of the period	$ 15,500

Solar Energy Systems Performance Guarantees

The Company guarantees certain specified minimum solar energy production output for certain systems leased or sold to customers generally for a term up to 30 years. The Company monitors the solar energy systems to ensure that these outputs are being achieved. The Company evaluates if any amounts are due to its customers. As of March 31, 2015 and December 31, 2014, the Company had recorded liabilities of $1.7 million and $1.6 million, respectively, under accrued and other current liabilities in the condensed consolidated balance sheets, relating to these guarantees based on the Company's assessment of its current exposure.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

Comprehensive Income (Loss)

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

Segment Information

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

Basic and Diluted Net Income (Loss) Per Share

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

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

Recently Issued Accounting Standards

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

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

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, to amend the criteria for consolidation of certain legal entities. The ASU is effective for interim and annual periods beginning after December 15, 2015. Adoption of the ASU is either retrospective to each prior period presented or retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently assessing the impact of the ASU on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, to require debt issuance costs to be presented as an offset against debt outstanding. The ASU is effective for interim and annual periods beginning after December 15, 2015. Adoption of the ASU is retrospective to each prior period presented. The Company does not anticipate that the adoption of the ASU will have a material impact on its condensed consolidated balance sheets.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

3. Goodwill and Intangible Assets

The Company is currently reviewing the third-party valuations of certain assets acquired and liabilities assumed through the Silevo acquisitions in the third quarter of 2014 including the gross amounts of certain intangible assets presented in the tables below. The Company is also reviewing the third-party valuation of contingent consideration payable on the acquisition of Silevo. There were no material changes recorded in the three months ended March 31, 2015 related to the amounts reported in the Company's Form 10-K for the year ended December 31, 2014, except for the periodic amortization of the intangible assets. However, the preliminary fair values of these intangible assets and goodwill remain subject to change.

Intangible Assets

The following is a summary of intangible assets as of March 31, 2015 (in thousands):

	Weighted-average useful life (in years)	Gross	Accumulated amortization	Net
Developed technology - Silevo	10	$115,000	$ (5,971)	$109,029
Developed technology - Zep Solar	7	60,100	(11,217)	48,883
Trademarks and trade names	7	24,700	(4,610)	20,090
Marketing database	5	17,427	(5,470)	11,957
PowerSaver agreement	10	17,077	(2,680)	14,397
Non-compete agreement	5	6,959	(2,184)	4,775
Other	6	10,028	(3,609)	6,419
Total	8.33	$251,291	$ (35,741)	$215,550

The following is a summary of intangible assets as of December 31, 2014 (in thousands):

	Weighted-average useful life (in years)	Gross	Accumulated amortization	Transfers to solar energy systems, leased and to be leased	Write-offs and cancellations	Net
Developed technology - Silevo	10	$115,000	$ (3,096)	$ —	$ —	111,904
Developed technology - Zep Solar	7	60,100	(9,070)	—	—	51,030
Trademarks and trade names	7	24,700	(3,728)	—	—	20,972
Marketing database	5	17,427	(4,599)	—	—	12,828

PowerSaver agreement	10	17,077	(2,253)	—	—	14,824
Solar energy systems backlog	30	12,434	—	(10,755)	(1,679)	—
Non-compete agreement	5	6,959	(1,836)	—	—	5,123
Other	6	10,028	(3,072)	—	—	6,956
Total	9.35	$263,725	$ (27,654)	$ (10,755)	$ (1,679)	$223,637

Amortization expense for the identifiable purchased intangible assets for the three months ended March 31, 2015 and 2014 was allocated as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Included in operating leases and solar energy incentives cost of revenue	$4,281	$893
Included in solar energy systems and components sales cost of revenue	882	1,906
Total included in cost of revenue	5,163	2,799
Included in sales and marketing	2,924	2,924
Total amortization expense	$8,087	$5,723

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

No intangible assets were impaired during the three months ended March 31, 2015.

The total future amortization expense for intangible assets is expected to be (in thousands):

	Cost of Revenue	Operating Expense	Total
Nine months ending December 31, 2015	$ 15,490	$ 8,772	$ 24,262
2016	20,643	11,203	31,846
2017	20,486	10,153	30,639
2018	20,486	8,582	29,068
2019	20,486	5,236	25,722
Thereafter	64,398	9,615	74,013
Total	$ 161,989	$ 53,561	$ 215,550

Goodwill

The carrying value of goodwill as of March 31, 2015 and December 31, 2014 was $315.9 million.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

4. Selected Balance Sheet Components

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

	March 31, 2015	December 31, 2014
Inventories:		
Raw materials	$223,507	$209,251
Work in progress	4,169	7,972
Total	$227,676	$217,223
Solar Energy Systems, Leased and To Be Leased - Net:		
Solar energy systems leased to customers	$2,670,720	$2,388,548
Initial direct costs related to solar energy systems leased to customers	236,559	207,537
	2,907,279	2,596,085
Less accumulated depreciation and amortization	(183,700)	(159,160)
	2,723,579	2,436,925
Solar energy systems under construction	168,949	131,048
Solar energy systems to be leased to customers	181,072	228,823
Solar energy systems, leased and to be leased - net(1)(2)	$3,073,600	$2,796,796
Accrued and Other Current Liabilities:		
Accrued compensation	$59,944	$50,414
Current portion of contingent consideration	42,536	41,978
Accrued expenses	43,588	27,485
Accrued sales and use taxes	10,626	10,438
Accrued warranty	15,500	8,607
Accrued professional services fees	5,862	6,813
Current portion of capital lease obligation	3,820	3,430
Current portion of deferred gain on sale-leaseback transactions	3,243	3,243
Total	$185,119	$152,408
Other Liabilities and Deferred Credits:		
Deferred gain on sale-leaseback transactions, net of current portion	$53,979	$54,790
Build-to-suit lease liability	52,900	26,450
Deferred rent expense	12,566	4,838
Capital lease obligation, net of current portion	27,592	27,791
Liability for receipts from investors	4,401	3,213
Contingent consideration, net of current portion	76,395	75,219
Participation interest	15,750	15,556

Other noncurrent liabilities	38,023	36,617
Total	$281,606	$244,474

(1) Included in solar energy systems leased to customers as of March 31, 2015 and December 31, 2014 was $66.4 million related to capital leased assets with an accumulated depreciation of $8.6 million and $7.9 million, respectively.

(2) Included in solar energy systems leased to customer as of March 31, 2015 and December 31, 2014 was $4.2 million and $3.5 million, respectively related to energy storage systems with an accumulated depreciation of $0.2 million and $0.1 million, respectively.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

5. Indebtedness

The following is a summary of the Company’s debt as of March 31, 2015 (dollars in thousands):

	Unpaid Principal Balance	Carrying Value, Net of Fees Current	Long-Term	Unused Borrowing Capacity	Interest Rate	Maturity Dates
Recourse debt:						
Revolving credit facility	$ 175,000	$—	$ 172,321	$ 5,664	3.4%	December 2016
Vehicle loans	8,973	2,552	6,421	—	1.9%-7.5%	April 2015 - June 2019
2.75% Convertible senior notes due in 2018	230,000	—	230,000	—	2.8%	November 2018
1.625% Convertible senior notes due in 2019	566,000	—	566,000	—	1.6%	November 2019
Solar Bonds	9,714	1,658	7,982	—	1.6%-5.8%	October 2015 - March 2030
Solar Bonds issued to related parties	90,530	90,330	200	—	2.0%-4.0%	October 2015 - October 2021
Total recourse debt	1,080,217	94,540	982,924	5,664		
Non-recourse debt:						
Term loan assumed from Silevo acquisition	9,160	9,160	—	—	7.8%	June 2015
Term loan due in September 2015	79,000	—	76,968	—	3.7 %	September 2015
Term loan due in May 2016	34,622	—	32,753	90,378	3.2%	May 2016
Term loan due in December 2016	182,416	—	179,275	67,584	3.4%-3.5%	December 2016
MyPower revolving credit facility	—	—	—	200,000		January 2017
Solar Asset-backed Notes, Series 2013-1	48,839	3,332	45,507	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	67,067	2,823	64,244	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	196,250	6,355	189,895	—	4.0%-Class A 5.4%-Class B	July 2044
Total non-recourse debt	617,354	21,670	588,642	357,962		
Total debt	$ 1,697,571	$ 116,210	$ 1,571,566	$ 363,626		

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SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

The following is a summary of the Company's debt as of December 31, 2014 (dollars in thousands):

	Unpaid Principal Balance	Carrying Value, Net of Fees Current	Long-Term	Unused Borrowing Capacity	Interest Rate	Maturity Date
Recourse debt:						
Revolving credit facility	$130,000	$—	$126,939	$54,935	3.4%	December 2016
Vehicle loans	9,724	2,647	7,077	—	1.9%-7.5%	March 2015 - June 2019
2.75% Convertible senior notes due in 2018	230,000	—	230,000	—	2.8%	November 2018
1.625% Convertible senior notes due in 2019	566,000	—	566,000	—	1.6%	November 2019
Solar Bonds	3,413	820	2,593	—	2.0%-4.0%	October 2015 - October 2021
Solar Bonds issued to related parties	530	330	200	—	2.0%-4.0%	October 2015 - October 2021
Total recourse debt	939,667	3,797	932,809	54,935		
Non-recourse debt:						
Term loan assumed from Silevo acquisition	9,134	9,134	—	—	7.8%	June 2015
Term loan due in May 2016	34,195	—	33,497	90,805	3.2%	May 2016
Term loan due in December 2016	122,655	—	120,108	127,345	3.4%-3.5%	December 2016
Solar Asset-backed Notes, Series 2013-1	49,519	3,291	46,228	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	67,676	2,779	64,897	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	201,494	7,504	193,268	—	4.0%-Class A 5.4%-Class B	July 2044
Total non-recourse debt	484,673	22,708	457,998	218,150		
Total debt	$1,424,340	$26,505	$1,390,807	$273,085		

Recourse debt refers to debt that is recourse to the Company's general assets. Non-recourse debt refers to debt that is recourse to only specified assets or subsidiaries of the Company. The Company's debt is described further below.

Recourse Debt Facilities:

Revolving Credit Facility

In September 2012, the Company entered into a revolving credit agreement with a syndicate of banks to obtain funding for working capital, letters of credit and funding for general corporate needs. The committed amount under the revolving credit facility was increased from $75.0 million to $200.0 million in 2013. Borrowed funds bear interest, at the Company's option, at an annual rate of (a) 3.25% plus LIBOR or (b) 2.25% plus the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The fee for undrawn commitments is 0.375% per annum. The revolving credit facility is secured by certain of the Company's machinery and equipment, accounts receivable, inventory and other assets. In each of June, July, September, October and December 2014, the revolving credit facility was amended to increase certain debt covenant thresholds, including those related to permitted investment amounts and capital expenditures by the Company, to make certain changes in connection with the Company's acquisition of Silevo and to make certain changes in connection with the issuance and payment of certain loans and debt, among other things. The Company was in compliance with all financial covenants as of March 31, 2015.

Vehicle Loans

The Company has entered into various vehicle loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed. The Company was in compliance with all financial covenants as of March 31, 2015.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

2.75% Convertible Senior Notes Due in 2018

In October 2013, the Company issued $230.0 million in aggregate principal of 2.75% convertible senior notes due on November 1, 2018 through a public offering. The net proceeds from the offering, after deducting transaction costs, were $222.5 million. The Company debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 16.2165 shares of the Company's common stock, which is equivalent to an initial conversion price of $61.67 per share, subject to adjustment upon the occurrence of specified events set forth in the applicable indenture. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change under the applicable indenture occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined fundamental changes. The Company was in compliance with all financial covenants as of March 31, 2015.

1.625% Convertible Senior Notes Due in 2019

In September 2014, the Company issued $500.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019 through a private placement. The net amount from the issuance, after deducting transaction costs, was $488.3 million. On October 10, 2014, the Company issued an additional $66.0 million in aggregate principal of the 1.625% convertible senior notes, pursuant to the exercise of an option by the initial purchasers. The net amount from the additional issuance, after deducting transaction costs, was $64.5 million. The debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 11.972 shares of the Company's common stock, which is equivalent to an initial conversion price of $83.53 per share, subject to adjustment upon the occurrence of specified events set forth in the applicable indenture. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change under the applicable indenture occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined fundamental changes. The Company was in compliance with all financial covenants as of March 31, 2015.

In connection with the issuance of the convertible senior notes in September 2014, the Company paid $57.6 million to enter into capped call option agreements to reduce the potential dilution to holders of the Company's common stock upon conversion of the convertible senior notes. In connection with the additional issuance of the convertible senior notes on October 10, 2014, the Company paid $7.6 million to enter into an additional capped call option agreement. The capped call option agreements have a cap price of $126.08 and an initial strike price of $83.53, which is equal to the initial conversion price of the convertible senior notes. The capped call options expire on various dates ranging from September 4, 2019 to October 29, 2019. The capped call option agreements are separate transactions, are not a part of the terms of the convertible senior notes and do not affect the rights of the convertible senior note holders. The capped call option agreements met the criteria for equity classification and were recorded as reductions to additional paid-in capital. The capped call option agreements are excluded from the calculation of diluted net income (loss) per share attributable to common stockholders as their effect is antidilutive.

Solar Bonds

In October 2014, the Company commenced issuing Solar Bonds, which are senior unsecured obligations that are structurally subordinate to the indebtedness and other liabilities of the Company's subsidiaries. Solar Bonds have been issued under multiple series that have various fixed terms and interest rates. The Company intends to continue to issue Solar Bonds from time to time depending on market conditions. In March 2015, Space Exploration Technologies Corporation, or SpaceX, purchased $90.0 million in aggregate principal amount of 2.00% Solar Bonds due in March 2016. SpaceX is considered a related party (see Note 12, Related Party Transactions). The Company was in compliance with all debt covenants as of March 31, 2015.

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

Non-Recourse Debt Facilities:

Term Loan Assumed From Silevo Acquisition

Through the Silevo acquisition, the Company assumed a pre-existing term loan with an outstanding principal balance of $9.1 million. The term loan bears interest at a fixed rate of 7.8% per annum and is denominated in the Chinese Yuan. The term loan is a liability of the Silevo JV only and is non-recourse to Company and its other subsidiaries. The Company was in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in September 2015

In March 2015, a subsidiary of the Company entered into an agreement with a bank for a term loan of $79.0 million. The term loan bears interest, at the Company's option, at an annual rate of (a) 3.50% plus LIBOR or (b) 3.50% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by certain assets and cash flows of certain subsidiaries of the Company and is non-recourse to the Company's other assets or cash flows. On May 4, 2015, the Company fully paid-off the term loan with a portion of the proceeds from the solar asset-backed revolving credit facility (see Note 15, Subsequent Events). The Company was in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in May 2016

On May 23, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan of $125.0 million. The term loan bears interest at an annual rate of 3.00% to 4.00%, depending on the cumulative period the term loan has been outstanding, plus LIBOR or, at the Company's option, plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by certain assets and cash flows of the subsidiary and is non-recourse to the Company's other assets or cash flows. The Company was in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in December 2016

On February 4, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan of $100.0 million. On February 20, 2014, the agreement was amended to increase the maximum term loan availability to $220.0 million. On March 20, 2014, the agreement was further amended to increase the maximum term loan availability to $250.0 million. The term loan bears interest at an annual rate of LIBOR plus 3.25% or, at the Company's option, 3.25% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by the assets and cash flows of the subsidiary and is non-recourse to the Company's other assets. The Company was in compliance with all financial covenants as of March 31, 2015.

MyPower Revolving Credit Facility

On January 9, 2015, a subsidiary of the Company entered into a $200.0 million revolving credit agreement with a syndicate of banks to obtain funding for the MyPower customer loan program. The MyPower revolving credit facility provides up to $160.0 million of Class A notes and up to $40.0 million of Class B notes. The Class A notes bear interest at an annual rate of 2.50% plus (a) the commercial paper rate or (b) 1.50% plus adjusted LIBOR. The Class B notes bear interest at an annual rate of 5.00% plus LIBOR. The fee for undrawn commitments is 0.50% per annum. The MyPower revolving credit facility is secured by the payments owed to the Company or its subsidiaries under the MyPower customer loans and is non-recourse to the Company's other assets. The Company was in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, Series 2013-1

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

In November 2013, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a special purpose entity, or SPE, and issued $54.4 million in aggregate principal of Solar Asset-backed Notes, Series 2013-1, backed by these solar assets to certain investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of March 31, 2015, these solar assets had a carrying value of $142.5 million and are included under solar energy systems, leased and to be leased — net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.05%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. The Company was in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, 2014-1

In April 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to certain investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of March 31, 2015, these solar assets had a carrying value of $133.2 million and are included under solar energy systems, leased and to be leased — net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. The Company was in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, Series 2014-2

In July 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and $41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, to certain investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on

the transfer of these solar assets. As of March 31, 2015, these solar assets had a carrying value of $283.1 million and are included under solar energy systems, leased and to be leased — net, in the condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that the Company has accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be used) to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The assets and cash flows generated by these solar assets are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The

Company contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. The Company was in compliance with all financial covenants as of March 31, 2015.

6. VIE Arrangements

The Company has entered into various arrangements with investors to facilitate funding and monetization of solar energy systems. These arrangements include those described in this Note 6, VIE Arrangements, as well as those described in Note 7, Financing Obligations.

VIE Fund Arrangements

Wholly owned subsidiaries of the Company and fund investors formed and contributed cash or assets to various solar financing funds and entered into related agreements. Additionally, the Company acquired the assets of a fund through a business combination in September 2013 and assumed the related contractual arrangements. The following table shows the number of current VIE funds by classification of investor, the carrying value of solar energy systems in the funds, the total investor contributions received and undrawn investor contributions as of March 31, 2015 under these funds (in thousands, except for number of funds):

SolarCity Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

Investor Classification	Number of Funds	Total Investor Contributions Received	Undrawn Investor Contributions	Carrying Value of Solar Energy Systems
Financial institutions	17	$ 1,071,405	$ 96,346	$ 1,241,970
Corporations	6	281,165	283,234	302,004
Utilities	2	247,286	18,750	251,992
Various other investors	1	3,607	-	3,300
Total	26	$ 1,603,463	$ 398,330	$ 1,799,266

The Company has determined that the funds are VIEs and it is the primary beneficiary of these VIEs by reference to the power and benefits criterion under ASC 810, Consolidation. The Company has considered the provisions within the contractual agreements, 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 contracts to be sold or contributed to these VIEs and the redeployment of solar energy systems. The Company considers that the rights granted to the fund investors under the contractual agreements are more protective in nature rather than participating.

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

Cash distributions of income and other receipts by a fund, net of agreed upon expenses, estimated expenses, tax benefits and detriments of income and loss and tax credits, are allocated to the fund investor and the Company's subsidiary as specified in contractual agreements.

Generally, the Company's subsidiary has the option to acquire the fund investor's interest in the fund for an amount based on the market value of the fund or the formula specified in the contractual agreements.

As of March 31, 2015 the Company was contractually required to make payments to a fund investor in order to ensure the investor is projected to achieve a specified minimum return annually. The amounts of any potential future payments under this guarantee are dependent on the amounts and timing of future distributions to the investor from the fund, the tax benefits that accrue to the investor from the fund's activities and the amount and timing of the Company's purchase of the investor's interest in the fund or the amount and timing of the distributions to the investor upon liquidation of the fund. Due to uncertainties associated with estimating the amount and timing of distributions to the investor and the possibility and timing of the liquidation of the fund, the Company is unable to determine the potential maximum future payments that it would have to make under this guarantee.

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

Pursuant to management services, maintenance and warranty arrangements, the Company has been contracted to provide services to the funds, such as operations and maintenance support, accounting, lease servicing and performance reporting. In some instances, the Company has guaranteed payments to the investors as specified in the contractual agreements. A fund's creditors have no recourse to the general credit of the Company or to that of other funds. None of the assets of the funds had been pledged as collateral for their obligations.

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Notes to Condensed Consolidated Financial Statements (Continued)

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

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$27,170	$26,419
Restricted cash	487	106
Accounts receivable - net	9,891	6,769
Rebates receivable	21,686	25,397
Prepaid expenses and other current assets	556	615
Total current assets	59,790	59,306
Restricted cash	254	300
Solar energy systems, leased and to be leased - net	1,799,266	1,581,459
Other assets	4,715	3,780
Total assets	$1,864,025	$1,644,845
Liabilities		
Current liabilities:		
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	$9,065	$8,552
Current portion of deferred U.S. Treasury grant income	6,501	6,502
Accrued and other current liabilities	846	336
Customer deposits	4,771	6,405
Current portion of deferred revenue	18,541	16,746
Total current liabilities	39,724	38,541
Deferred revenue, net of current portion	268,243	256,200
Deferred U.S. Treasury grant income, net of current portion	168,912	170,548
Other liabilities and deferred credits	15,088	10,825
Total liabilities	$491,967	$476,114

Silevo's Joint Venture in China

The Company, through a subsidiary, Silevo, Inc. operates a joint venture, Silevo China Company Limited, or the JV, with three other Chinese legal entities, or the JV Partners, to develop, manufacture and market high performance solar cells. Silevo owns approximately 65.7% of the outstanding capital of the JV, and the rest is owned by the JV Partners. Silevo has a Manufacturing Services and Technology Licensing Agreement with the JV to acquire solar cells on a "cost-plus" basis. The JV is required to obtain Silevo's consent to sell products to any third-party. The agreement had an initial term of one year and automatically renews for successive one-year periods.

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

The aggregate carrying values of the JV's assets and liabilities in the condensed consolidated balance sheets were as follows (in thousands):

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$2,058	$ 1,401
Inventories	1,112	614
Prepaid expenses and other current assets	600	1,224
Total current assets	3,770	3,239
Property, plant and equipment - net	24,437	24,286
Total assets	$28,207	$ 27,525
Liabilities		
Current liabilities:		
Accounts payable	$2,896	$ 2,748
Accrued and other current liabilities	611	633
Current portion of long-term debt	9,160	9,134
Total current liabilities	12,667	12,515
Total liabilities	$12,667	$ 12,515

7. Financing Obligations

Lease Pass-Through Financing Obligation

In the three months ended March 31, 2015, the Company entered into a new lease pass-through fund arrangement. Under this arrangement, the Company and an investor formed a partnership whereby the Company contributes solar energy systems and the investor contributes cash to the partnership. Contemporaneously, the partnership entered into a master lease arrangement to lease the solar energy systems and the associated customer lease or power purchase agreements to the investor. The Company has concluded that the partnership is a VIE that is consolidated by the Company as the primary beneficiary. The assets and liabilities of this partnership are included under Note 6, VIE Arrangements. The partnership also makes a tax election to pass-through the investment tax credits, or ITCs, that accrue to the solar energy systems to the investor, who as the legal lessee of the property is allowed to claim the ITCs under Section 50(d)(5) of the Internal Revenue Code and the related regulations. The solar energy systems are included under solar energy systems, leased and to be leased – net in the condensed consolidated balance sheets, and as of March 31, 2015, the net carrying value of the solar energy systems was $12.2 million.

Under the arrangement, the investor makes a large upfront payment to the partnership and subsequent periodic payments. The Company allocates a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investors. The estimated fair value of the ITCs are determined by discounting the estimated cash flows impact of the

ITCs using an appropriate discount rate that reflects a market interest rate. The partnership has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly under the Company's accounting policy for ITCs, the Company recognizes revenue as the recapture provisions lapse assuming all other revenue recognition criteria under ASC 605-10-S99, Revenue Recognition-Overall-SEC Materials have been met. The amounts allocated to ITCs are initially recorded as deferred revenue on the condensed consolidated balance sheet, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives in the condensed consolidated statements of operations on each anniversary of the solar energy system's placed in service date over the next five years.

The Company accounts for the residual of the payments received from the investors, net of amounts allocated to ITCs, as a borrowing by recording the proceeds received as a lease pass-through financing obligation, which would be repaid customer payments and incentive rebates that would be received by the investors. Under this approach, the Company continues to account for the arrangement with the customers in its condensed consolidated financial statements, whether the cash generated from the customer arrangements is received by the lessor or paid directly to the investors. A portion of the amounts received by the investors from customer payments and incentive rebates associated with the leases assigned to the investors is applied to reduce the lease pass-through financing obligation, and the balance is allocated to interest expense. The incentive rebates and host customer payments are recognized into revenue consistent with the Company's revenue recognition accounting policy. Interest is calculated on the lease pass-through financing obligation using the effective interest rate method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by an investor over the master lease term with the present value of the cash amounts

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Notes to Condensed Consolidated Financial Statements (Continued)

paid by the investor to the Company, adjusted for any payments made by the Company. The lease pass-through financing obligation is nonrecourse once the associated assets have been placed in service and all the customer arrangements have been assigned to the investors.

The investor is responsible for services such as warranty support, accounting, lease servicing and performance reporting, which have been outsourced to the Company under an operations and maintenance agreement.

8. Redeemable Noncontrolling Interests in Subsidiaries

Noncontrolling interests in subsidiaries that are redeemable at the option of the holder are classified as redeemable noncontrolling interests in subsidiaries between liabilities and stockholders’ equity in the condensed consolidated balance sheets. The redeemable noncontrolling interests in subsidiaries balance is determined using the hypothetical liquidation at book value method for the VIE funds or allocation of share of income or losses in other subsidiaries subsequent to initial recognition, however, the noncontrolling interests balance cannot be less than the estimated redemption value. The activity of the redeemable noncontrolling interests in subsidiaries balance was as follows (in thousands):

Balance at December 31, 2014	186,788
Contributions from redeemable noncontrolling interests	108,038
Net loss	(39,406)
Distributions to redeemable noncontrolling interests	(8,928)
Balance at March 31, 2015	$246,492

9. Equity

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

	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2014	$ 745,642	$ 409,942	$1,155,584
Contributions from noncontrolling interests	—	68,280	68,280
Stock-based compensation expense	24,453	—	24,453
Issuance of common stock upon exercise of stock options for cash	3,645	—	3,645

Net loss	(21,525)	(86,006)	(107,531)
Distributions to noncontrolling interests	—	(8,442)	(8,442)
Balance, March 31, 2015	$ 752,215	$ 383,774	$1,135,989

10. Equity Award Plans

Stock Options

Under the Company's 2012 Equity Incentive Plan, the Company may grant incentive stock options and nonstatutory stock options for common stock to employees, directors and consultants. Stock options may be granted at an exercise price per share not less than 100% of the fair market value per share on the grant date. If an incentive stock option is granted to a 10% or greater stockholder, then the exercise price per share shall not be less than 110% of the fair market value per share on the grant date. Stock options 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 receives 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 receive various specified additional equity awards and cash retainers.

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Notes to Condensed Consolidated Financial Statements (Continued)

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

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding - December 31, 2014	13,950	32.89	7.64	342,293
Granted (weighted-average fair value of $34.48)	244	51.16		
Exercised	(310)	11.75		11,601
Canceled	(301)	58.78		
Outstanding - March 31, 2015	13,583	$ 33.12	7.49	$ 308,354
Options vested and exercisable - March 31, 2015	7,036	$ 15.80	6.30	$ 261,547
Options vested and expected to vest - March 31, 2015	12,574	$ 31.36	7.37	$ 303,893

As of March 31, 2015, approximately 27% of the non-vested stock options outstanding had a performance feature that is required to be satisfied before the option is vested and exercisable. The grant date fair market value of options that vested in the three months ended March 31, 2015 and 2014 was $23.8 million and $7.5 million, respectively.

As of March 31, 2015 and December 31, 2014, there was $176.9 million and $242.9 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to nonvested stock options, which are expected to be recognized over the weighted-average period of 2.82 years and 2.76 years, respectively.

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 March 31,	
	2015	2014
Dividend yield	0 %	0 %
Annual risk-free rate of return	1.56 %	2.01 %
Expected volatility	76.90 %	84.86 %
Expected term (years)	6.12	6.20

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.

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Notes to Condensed Consolidated Financial Statements (Continued)

Restricted Stock Units

The Company began granting restricted stock units, or RSUs, to employees, directors and consultants in 2012 under the Company's 2012 Equity Incentive Plan. Pursuant to the acquisition of Silevo, Inc., or Silevo, on September 23, 2014, the Company granted RSUs to former employees of Silevo to replace their outstanding and unvested Silevo stock options. These RSUs vest under the same terms as the replaced Silevo stock options. A summary of RSU activity is as follows (in thousands, except per share amounts):

	Restricted Stock Units	Weighted-Average Fair Value
Outstanding - December 31, 2014	1,029	61.16
Granted	696	53.76
Released	(25)	65.87
Cancelled	(60)	57.48
Outstanding - March 31, 2015	1,640	$ 58.09
Expected to vest - March 31, 2015	1,295	$ 58.16

The grant date fair value of RSUs released was $1.6 million and $0.1 million for the three months ended March 31, 2015 and 2014, respectively. Under ASC 718, the Company determines the fair value of RSUs granted on each grant date based on the fair value of the Company's common stock on the grant date and applies the straight-line method of expense attribution. As of March 31, 2015 and December 31, 2014, there was $64.5 million and $55.2 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, from RSUs, which are expected to be recognized over the weighted-average period of 3.45 years and 3.30 years, respectively.

Stock-Based Compensation Expense

As part of the requirements of ASC 718, the Company is required to estimate potential forfeitures of equity awards and adjust stock-based compensation expense accordingly. The estimate of forfeitures 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 during the three months ended March 31, 2015 and 2014 was $24.5 million and $18.1 million, respectively.

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

	Three Months Ended March 31, 2015	2014
Capitalized under:		
Inventories	$250	$108
Other assets	$642	$—
Property, plant and equipment - net	$606	$1,480
Solar energy systems, leased and to be leased - net	$4,638	$3,642

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

	Three Months Ended March 31, 2015	2014
Total cost of revenue	$320	$826
Sales and marketing	$3,765	$3,040
General and administrative	$10,143	$8,475
Research and development	$4,133	$506

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Notes to Condensed Consolidated Financial Statements (Continued)

11. Income Taxes

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

The income tax expense for the three months ended March 31, 2015 and 2014 was determined based on the Company’s estimated consolidated effective income tax rates of 0.43% and negative 0.29%, respectively. The differences between the estimated consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to valuation allowance and the current amortization of the prepaid income taxes due to inter-company sales held within the consolidated group.

As part of the asset monetization strategy, the Company has agreements to sell solar energy systems to the solar financing fund joint ventures. The gain on the sale of the assets has been eliminated in the condensed consolidated financial statements. These transactions are treated as inter-company sales and as such, tax is not recognized on the sale until the Company no longer benefits from the underlying asset. Since the systems remain within the consolidated group, the tax expense incurred related to these sales is being deferred and amortized over the estimated useful life of the underlying systems which has been estimated to be 30 years. The deferral of the tax expense results in recording of a prepaid tax expense that is included in the condensed consolidated balance sheets as other assets. As of March 31, 2015 and December 31, 2014, the Company recorded a net prepaid tax expense, net of amortization of $3.7 million and $3.7 million, respectively. The amortization of the prepaid tax expense in each period makes up the major component of the tax expense.

Uncertain Tax Positions

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

12. Related Party Transactions

The Company’s operations included the following related party transactions (in thousands):

	Three Months Ended March 31,	
	2015	2014

Expenditures:		
Purchases of inventories or equipment from related parties	$797	$960
Fees paid or payable to related parties (included in sales and marketing expense)	$—	$64
Interest paid or payable to related parties (included in interest expense — net)	$8	$—

Related party balances were comprised of the following (in thousands):

	March 31, 2015	December 31, 2014
Due from related parties (included in accounts receivable)	$30	$ 30
Due to related parties (included in accounts payable)	$693	$ 300
Due to related parties (included in solar bonds)	$90,530	$ 530
Due to related parties (included in accrued and other current liabilities)	$7	$ 3

The related party transactions were primarily purchases of batteries from Tesla Motors, Inc., or Tesla, and issuances of Solar Bonds to SpaceX and the Chief Technology Officer. Tesla is considered a related party because the Chairman of the Company's board of directors is the chief executive officer and chairman of Tesla, other members of the Company's board of directors also serve as members of the board of directors of Tesla, the Company's Chief Financial Officer also serves as a member of the board of directors of Tesla, and some members of the Company's board of directors and executive management are also investors in Tesla. SpaceX is considered a related party because the Chairman of the Company's board of directors is the chief executive officer, chief designer, chairman and a significant stockholder of SpaceX, other members of the Company's board of directors also serve as members of the board of directors of SpaceX, and some members of the Company's board of directors and executive management are also investors in SpaceX.

13. Commitments and Contingencies

Noncancelable Leases

The Company leases offices, warehouse facilities, equipment, vehicles and solar energy systems under noncancelable leases.

Build-to-Suit Lease Arrangement

In September 2014, a subsidiary of the Company entered into a build-to-suit lease arrangement with the Research Foundation for the State University of New York, or the Foundation, for the construction of an approximately 1,000,000 square foot manufacturing facility with the capacity to produce at least 1 gigawatt of solar panels annually on an approximately 88.24 acre site located in Buffalo, New York. Under the terms of the agreement, the Foundation will construct the manufacturing facility and install certain utilities and other improvements, with participation by the Company as to the design and construction of the manufacturing facility, and acquire certain manufacturing equipment designated by the Company to be used in the manufacturing facility. The Foundation will cover construction costs related to the manufacturing facility in an amount up to $350.0 million and the acquisition and commissioning of the manufacturing equipment in an amount up to $400.0 million, in each case, subject to the maximum funding allocation from the State of New York, and the Company will be responsible for any construction and equipment costs in excess of such amounts. The Foundation will own the manufacturing facility and manufacturing equipment. Following completion of the manufacturing facility, the Company will lease the manufacturing facility and the manufacturing equipment from the Foundation for an initial period of 10 years, with an option to renew, for $2 per year plus utilities.

Under the terms of the build-to-suit lease arrangement, the Company is required to achieve specific operational milestones during the initial term of the lease, which include employing a certain number of employees at the facility and within the State of New York within specified time periods following the completion of the facility. The Company is also required to spend or incur approximately $5 billion in combined capital, operational expenses and other costs in the State of New York over the 10 years following full production. On an annual basis during the initial lease term, as measured on each anniversary of the commissioning of the facility, if the Company fails to meet its specified investment and job creation obligations, then it would be obligated to pay a $41.2 million "program payment" to the Foundation for each year that it fails to meet these requirements. Furthermore, if the agreement is terminated due to a material breach by the Company, then additional amounts might be payable by the Company.

Due to the Company's involvement with the construction of the facility, its exposure to any potential cost overruns and its other commitments under the agreement, the Company is deemed to be the owner of the facility and the manufacturing equipment for accounting purposes during the construction phase. Accordingly, as of March 31, 2015 and December 31, 2014, the Company had recorded a build-to-suit lease asset under construction of $52.9 million and

$26.5 million, respectively, which is a component of property, plant and equipment – net, and a corresponding build-to-suit lease liability, which is a component of other liabilities and deferred credits, on the condensed consolidated balance sheets.

Indemnification and Guaranteed Returns

The Company is contractually committed to compensate certain fund investors for any losses that they may suffer in certain limited circumstances resulting from reductions in U.S. Treasury grants or ITCs. Generally, such obligations would arise as a result of reductions to the value of the underlying solar energy systems as assessed by the U.S. Treasury Department for purposes of claiming U.S. Treasury grants or as assessed by the IRS for purposes of claiming ITCs or U.S. Treasury grants. For each balance sheet date, the Company assesses and recognizes, when applicable, the potential exposure from this obligation based on all the information available at that time, including any guidelines issued by the U.S. Treasury Department on solar energy system valuations for purposes of claiming U.S. Treasury grants and any audits undertaken by the IRS. The Company believes that any payments to the fund investors in excess of the amount already recognized by the Company for this obligation are not probable based on the facts known at the reporting date.

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

As disclosed in Note 6, VIE Arrangements , the Company is contractually required to make payments to one fund investor to ensure that the fund investor achieves a specified minimum internal rate of return. The fund investor has already received a significant portion of the projected economic benefits from U.S. Treasury grant distributions and tax depreciation benefits. The contractual provisions of the fund state that the fund has an indefinite term unless the members agree to dissolve the fund. Based on the Company’s current financial projections regarding the amount and timing of future distributions to the fund investor, the Company does not expect to make any payments as a result of this guarantee and has not accrued any liabilities for this guarantee. The amount of potential future payments under this guarantee is dependent on the amount and timing of future distributions to the fund investor and future tax benefits that accrue to the fund investor. Due to the uncertainties surrounding estimating the amounts of these factors, the Company is unable to estimate the maximum potential payments under this guarantee. As of March 31, 2015, the fund investor has achieved the specified minimum internal rate of return as determined in accordance with the contractual provisions of the fund.

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

Letters of Credit

As of March 31, 2015, the Company had $19.3 million of unused letters of credit outstanding, which carry a fee of 3.375% per annum.

Other Contingencies

In July 2012, the Company, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in the Company's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to the Company's applications for U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for U.S Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S Treasury grant program, including possible misrepresentations concerning the fair market value of the solar energy systems submitted by the Company in U.S. Treasury grant applications. If the Inspector General concludes that misrepresentations were made, the U.S. Department of Justice could decide to bring a civil action to recover amounts it believes were improperly paid to the Company. If the U.S. Department of Justice is successful in asserting this action, the Company could then be required to pay material damages and penalties for any funds received based on such misrepresentations, which, in turn, could require the Company to make indemnity payments to certain fund investors. The Company is unable to estimate the possible loss, if any, associated with this ongoing investigation as information is still being produced by the Company for further review by the Inspector General.

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Notes to Condensed Consolidated Financial Statements (Continued)

On April 30, 2013, the U.S. Department of Labor, or DOL, notified the Company that it was undertaking a wage and hour investigation related to the Company's Foster City, California facility. On February 28, 2014, the DOL informed the Company that it had made a preliminary determination that some of its employee positions were not properly classified but has made no assessment of damages or penalties. In March 2015, the Company resolved the investigation by entering into a settlement agreement with the DOL. The amount of the settlement was not material to the Company's condensed consolidated financial statements.

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and two of its officers. The complaint alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of our securities from March 6, 2013 to March 18, 2014. On April 16, 2015, the District Court dismissed the complaint. The plaintiffs have until June 19, 2015 to file an amended complaint to attempt to remedy the defects in the original complaint. The Company believes that the claims are without merit and intends to defend itself vigorously. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

On June 5 and 11, 2014, stockholder derivative actions were filed in the Superior Court of California for the County of San Mateo, purportedly on behalf of the Company and against the board of directors, alleging that the board of directors breached its duties to the Company by failing to prevent the conduct alleged in the pending purported stockholder class action lawsuit. The Company and the individual board member defendants have filed a motion to dismiss the complaint. The Company is reviewing the claims asserted by the stockholders and is unable to estimate the possible loss, if any, associated with this lawsuit.

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

14. Basic and Diluted Net Loss Per Share

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

	Three Months Ended March 31, 2015	2014
Net loss attributable to stockholders	$(21,525)	$(24,063)
Net loss attributable to common stockholders, basic	$(21,525)	$(24,063)
Net loss attributable to common stockholders, diluted	$(21,525)	$(24,063)
Weighted-average shares used to compute net loss per share attributable to common	96,680,069	91,412,126

stockholders, basic		
Weighted-average shares used to compute net loss per share attributable to common stockholders, diluted	96,680,069	91,412,126
Net loss per share attributable to common stockholders, basic	$(0.22)	$(0.26)
Net loss per share attributable to common stockholders, diluted	$(0.22)	$(0.26)

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

	Three Months Ended March 31,	
	2015	2014
Common stock options	13,815,595	14,393,036
Restricted stock units	1,322,010	93,875
Convertible senior notes	10,505,947	3,729,795

15. Subsequent Events

New Financing Funds

In April 2015, the Company formed three new non-recourse financing funds with new and existing fund investors with an aggregate financing commitment of $205.0 million.

Financing Fund Amendments

In April and May 2015, the contractual terms of two existing financing funds were amended to increase the total available financing by $80.6 million in aggregate.

Pay-down of Revolving Credit Facility

On April 13, 2015, the Company paid-down $45.0 million of the outstanding principal of the revolving credit facility.

New Solar Asset-backed Revolving Credit Facility and Pay-off of Debt

On May 4, 2015, a subsidiary of the Company entered into an agreement with a syndicate of banks for a revolving credit facility with a total committed amount of $500.0 million. On the same date, the subsidiary drew $113.1 million under the revolving credit facility and used a portion of the proceeds to fully pay-off the term loan due in September 2015. The revolving credit facility bears interest at an annual rate of 2.75% plus, at the Company’s option, LIBOR, the commercial paper rate or the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America’s published “prime rate” or (iii) LIBOR plus 1.00%. The revolving credit facility is secured by the Company’s interests in certain financing funds and is non-recourse to the Company’s other assets.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the accompanying notes to those statements included elsewhere in this quarterly report on Form 10-Q and with our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 24, 2015. 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, manufacturing, installation, monitoring, maintenance and financing of our distributed solar energy systems. This allows us to offer long-term energy solutions to residential, commercial, government and other customers. We make it possible for our customers to buy renewable energy or solar energy systems from us for less than they currently pay for electricity from utilities with little to no up-front cost or down payment, as applicable. Our long-term contractual arrangements typically generate recurring customer payments, provide our customers with insight into their future electricity costs and minimize their exposure to rising retail electricity rates. We also offer energy-related products and services to our customers, such as energy storage solutions. To date, revenue attributable to our energy-related products and services has not been material.

We offer our customers the choice to either purchase and own solar energy systems or to purchase the energy that our solar energy systems produce through various contractual arrangements. These contractual arrangements include long-term leases and power purchase agreements. In both structures, we install our solar energy systems 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 with a renewal option, and generally when there is no upfront prepayment, the specified monthly fees are subject to annual escalations.

In the fourth quarter of 2014, we began offering MyPower. Under MyPower, one of our wholly-owned subsidiaries provides qualified residential customers with a 30-year loan to finance the purchase of a solar energy system. The interest rate on the loan is fixed at inception and ranges from 4.50% to 5.49% per annum, depending on the geographic market. The interest rates are reduced by 0.50% per annum for customers who elect to have their payments automatically withdrawn. The monthly loan repayments are variable based on the amount of electricity generated by the systems. The customers are eligible to receive a federal income tax credit equal to 30% of the value of the solar energy system, which the customers can, and in certain cases are contractually obligated to, use to pay down the loan principal, and lower future monthly loan payments. This in turn translates to a lower effective cost per kWh of electricity to these customers.

Initially, we only offered our solar energy systems on an outright purchase basis. During 2008, we began offering leases and power purchase agreements, and in 2014, we began offering MyPower. Our ability to offer leases, power purchase agreements and the financing of systems under MyPower depends in part on our ability to monetize the resulting customer receivables and any related investment tax credits, or ITCs, accelerated tax depreciation and other incentives.

We compete mainly with the retail electricity rate charged by the utilities in the markets we serve, and our strategy is to price the energy and/or services we provide and payments under MyPower below that rate. As a result, the price our customers pay 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 on an outright purchase basis when we install the solar energy system and it passes inspection by the utility or the authority having jurisdiction. We recognize revenue from MyPower financed sales over the term of the loan contract as the customer pays the loan's outstanding principal and interest. We account for our leases and power purchase agreements as operating leases. We recognize the revenue that 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-related products and services when we complete the services or when we earn a referral fee. Substantially all of our revenue is attributable to customers located in the United States.

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

The amount of operating lease revenue that we recognize in a given period is dependent in part on the amount of electricity generated by solar energy systems under power purchase agreements and by systems with energy output performance based incentives, which is in turn dependent on the amount of sunlight received by these solar energy systems. Additionally, the amount of revenue that we recognize in any given period for sales financed under MyPower is dependent on the periodic cash receipts from customer billings. The billings are based on the amount of electricity generated by these systems, which in turn is dependent in part on the amount of sunlight received by these systems. As a result, operating lease revenue and revenue from sales financed under MyPower are impacted by seasonally shorter daylight hours and inclement weather in winter months. As the relative percentage of our revenue attributable to power purchase agreements, performance-based incentives or financed sales under MyPower increases, this seasonality may become more significant to our quarterly financial results.

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. For outright sales, we record the incentive rebate as a component of proceeds from the solar energy system sale. For incentive rebates associated with solar energy systems under leases or power purchase agreements, we initially record the incentive rebate that is paid upfront as deferred revenue and recognize the deferred revenue as revenue over the term of the lease or power purchase agreement. For incentives that are paid based on the performance of the solar energy systems, we recognize revenue as the solar energy systems produce electricity.

Component materials, direct labor and third-party appliances comprise the substantial majority of the costs of our solar energy systems and energy-related products and services. The costs associated with sales financed under MyPower are initially deferred as other assets on the balance sheet and subsequently recognized as a component of cost of revenue from solar energy systems and component sales generally in proportion to the reduction of the principal balance of the customer’s loan. 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 their estimated useful lives of 30 years, reduced by amortization of U.S. Treasury grants income. The cost of revenue from our leases and power purchase agreements also include the amortization of initial direct costs which generally include the incremental cost of contract administration, referral fees and sales commissions, which are amortized over the minimum contractual term of the lease or power purchase agreement, which is typically 20 years.

We have structured different types of financing funds to implement our asset monetization strategy. One such structure is a joint venture structure where we and our fund investors both contribute funds or assets into the joint venture. In accordance with GAAP, we recognize the impact of a hypothetical liquidation of these joint ventures on our condensed consolidated statements of operations. Therefore, after we determine our consolidated net income (loss) for a given period, we allocate a portion of our consolidated net income (loss) to the fund investors in our joint ventures (referred to as the “noncontrolling interests” in 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 statements of operations, can have a significant impact on our reported results of operations. For example, for the three months ended March 31, 2015 and 2014, our consolidated net loss was $146.9 million and $75.2 million, respectively. However, after applying the required allocations to arrive at the consolidated net loss attributable to our stockholders, the result was a loss of $21.5 million and $24.1 million in 2015 and 2014, respectively. For a more detailed discussion of this accounting treatment, see “Results of Operations—Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests.”

Financing Funds

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

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

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

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

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

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

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

Key Operating Metrics

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

Customers

We track the number of residential, commercial, government and other customers where we have installed or contracted to install a solar energy system, or performed or contracted to perform an energy-related consultation or other energy efficiency services. We believe that the relationship we establish with building owners, together with the energy-related information we obtain about the buildings, position us to provide the owners with additional solutions to further lower their energy costs. We track the cumulative number of customers 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 customers as of the dates presented:

	March 31, 2015	December 31, 2014
Cumulative customers	217,595	189,657

Energy Contracts

We define an energy contract as a residential, commercial or government lease, power purchase agreement or MyPower contract 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:

	March 31, 2015	December 31, 2014
Cumulative energy contracts	207,426	177,455

Megawatts Deployed and Megawatts Installed

We track megawatts deployed, or 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 deployed systems is an indicator of the growth rate and cost efficiency of our solar energy system business. We track the megawatts deployed in a given period as an indicator of asset growth and efficiency of the scale of our operations in the period. We track cumulative megawatts deployed as of the end of a given period as an indicator of our historical growth and our future opportunity to provide customers with additional solutions to further lower their energy costs. The following table sets forth the megawatt production capacity of solar energy systems that we have deployed during the periods presented and the cumulative megawatts deployed as of the end of each period presented:

	Three Months Ended March 31, 2015	2014
Megawatts deployed	143	82
Cumulative megawatts deployed	1,212	649

In addition, we track megawatts installed, or the megawatt production capacity of (a) residential solar energy systems for which (i) all solar panels, inverters, mounting and racking hardware and system wiring have been installed, (ii) the system inverter is connected and a successful direct current string test has been completed confirming the production capacity of the system and (iii) interconnection wiring has been completed and the system is capable of being grid connected, and (b) non-residential solar energy systems for which (i) all solar panels, inverters, mounting and racking hardware and system wiring have been installed, (ii) the system inverter is connected and a successful direct current string test has been completed confirming the production capacity of the system and (iii) the system is capable of being grid connected, in each case, as of the latest of which criteria is completed during the applicable period. This metric includes solar energy systems installed under energy contracts, as well as solar energy system direct sales. The following table sets forth the megawatt production capacity of solar energy systems that we have installed during the periods presented and the cumulative megawatts installed as of the end of each period presented:

	Three Months Ended March 31, 2015	2014
Megawatts installed	153	82
Cumulative megawatts installed	1,229	654

Nominal Contracted Payments

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

We track the estimated nominal contracted payments of our energy contracts entered into as of specified dates. Nominal contracted payments represent our estimate of the sum of the cash payments that our customer is obligated to pay under our energy contracts. When calculating nominal contracted payments, we include only those energy contracts for solar energy systems already deployed and in backlog over the remaining term of such contracts. Backlog represents the aggregate megawatt capacity of solar energy systems not yet deployed as of the date specified pursuant to energy contracts and contracts for solar energy system direct sales executed as of such date. For a lease, we include the monthly fee and the upfront fee as set forth in the lease. As an example, the nominal contracted payments for a 20-year lease with monthly payments of $200 and an upfront payment of $5,000 is $53,000. For a power purchase agreement, we multiply the contract price per kWh by the estimated annual energy output of the associated solar energy system to determine the nominal contracted payments. For MyPower contracts, we include the total payments during the full 30-year term of the loan. The nominal contracted payments of a particular lease, power purchase agreement or MyPower contract decline as the payments are received by us or a fund investor, as applicable. Aggregate nominal contracted payments include leases and power purchase agreements that we have contributed to financing funds, aggregation facilities or solar-asset backed notes. 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. Cancellation of signed contracts, underperformance of the solar energy systems, payment defaults by our customers 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 energy contracts, the estimated aggregate nominal contracted payments remaining as of the dates presented (in thousands):

	March 31, 2015	December 31, 2014
Estimated aggregate nominal contracted payments remaining	$6,106,401	$4,951,429

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 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 systems have already been installed on the customer's building, which will facilitate the customer's acceptance of our renewal offer and will result in limited additional costs to us. No amounts attributed to the expected renewal period are included in the estimated aggregate nominal contracted payments remaining as detailed in the above table.

Critical Accounting Policies and Estimates

There were no material changes to our critical accounting policies or estimates during the three months ended March 31, 2015 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2014.

Results of Operations

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except share and per share data)	
Revenue:		
Operating leases and solar energy systems incentives	$54,771	$29,072
Solar energy systems and components sales	12,708	34,474
Total revenue	67,479	63,546
Cost of revenue:		
Operating leases and solar energy systems incentives	32,260	15,979
Solar energy systems and components sales	13,460	32,782
Total cost of revenue	45,720	48,761
Gross profit	21,759	14,785
Operating expenses:		
Sales and marketing	86,671	46,850
General and administrative	48,654	33,011
Research and development	12,120	1,923
Total operating expenses	147,445	81,784
Loss from operations	(125,686)	(66,999)
Interest expense, net	18,521	7,979
Other expense, net	2,104	25
Loss before income taxes	(146,311)	(75,003)
Income tax provision	(626)	(215)
Net loss	(146,937)	(75,218)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(125,412)	(51,155)
Net loss attributable to stockholders	$(21,525)	$(24,063)
Net income (loss) attributable to common stockholders		
Basic	$(21,525)	$(24,063)
Diluted	$(21,525)	$(24,063)
Net loss per share attributable to common stockholders		
Basic	$(0.22)	$(0.26)
Diluted	$(0.22)	$(0.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders		
Basic	96,680,069	91,412,126
Diluted	96,680,069	91,412,126

Revenue

(Dollars in thousands)	Three Months Ended March 31, 2015	2014	Change $	%
Operating leases and solar energy systems incentives	$54,771	$29,072	$25,699	88 %
Solar energy systems and components sales	12,708	34,474	(21,766)	(63)%
Total revenue	$67,479	$63,546	$3,933	6 %

Total revenue increased by $3.9 million, or 6%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014.

Operating leases and solar energy systems incentives revenue increased by $25.7 million, or 88%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was attributable to the increase in solar energy systems placed in service under leases and power purchase agreements between April 1, 2014 and March 31, 2015. The in-period average of the aggregate megawatt production capacity of solar energy systems placed in service under leases and power purchase agreements during the three months ended March 31, 2015 increased by 86% as compared to the in-period average during the three months ended March 31, 2014. 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. In addition, revenue from the monetization of ITCs increased by $7.5 million for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, as we recognized revenue from the monetization of ITCs related to solar energy systems that were placed in service in the three months ended March 31, 2014. We recognize revenue from the monetization of ITCs on the anniversary date of each solar energy system's placed in service date as recapture provisions expire.

Revenue from sales of solar energy systems and components decreased by $21.8 million, or 63%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This decrease was primarily due to a $15.1 million decrease in revenue from long-term solar energy system sales contracts recognized on the percentage-of-completion basis and a $3.9 million decrease in revenue from sales to commercial customers. These decreases were partially offset by a $2.2 million increase in revenue from sales to residential customers, a $0.9 million increase in revenue from sales to government entities, a $1.1 million increase in revenue from sales under MyPower contracts and a $1.0 million increase in revenue from sales of Silevo products. We acquired Silevo in September 2014. In addition, in the three months ended March 31, 2014, we recognized $8.6 million of revenue from sales of Zep Solar products as we fulfilled open customer orders following our acquisition of Zep Solar. Subsequent to the fulfillment of all external Zep Solar sales orders, we have internally consumed all Zep Solar products in our solar energy system installations for our customers.

Cost of Revenue, Gross Profit and Gross Profit Margin

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2015	2014	$	%
Cost of operating leases and solar energy systems incentives	$32,260	$15,979	$16,281	102 %
Gross profit of operating leases and solar energy systems incentives	22,511	13,093	9,418	72 %
Gross profit margin of operating leases and solar energy systems incentives	41 %	45 %		
Cost of solar energy systems and component sales	$13,460	$32,782	$(19,322)	(59)%
Gross (loss) profit of solar energy systems and component sales	(752)	1,692	(2,444)	(144)%
Gross (loss) profit margin of solar energy systems and component sales	(6)%	5 %		
Total cost of revenue	$45,720	$48,761	$(3,041)	(6)%
Total gross profit	21,759	14,785	6,974	47 %
Total gross profit margin	32 %	23 %		

Cost of operating leases and solar energy systems incentives revenue increased by $16.3 million, or 102%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was primarily due to greater depreciation expense arising from the higher aggregate cost of solar energy systems placed in service under leases and power purchase agreements. Additionally, we incurred $3.7 million of increased period costs primarily related to customer contract cancellations and our dedicated operations and maintenance department. We also incurred $3.4 million of increased expenses due to the continuing amortization of intangible assets mainly related to the Silevo acquisition in September 2014.

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Cost of solar energy systems and component sales decreased by $19.3 million, or 59%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This decrease was primarily due to lower sales of solar energy systems and components. In addition, the gross margin declined from a gross profit of 5% to a gross loss of 6% mainly due to non-recurring Zep Solar product sales in the three months ended March 31, 2014, which generally had higher gross margins than solar energy systems sales. This decline was partially offset by the increase in the percentage of residential sales in the three months ended March 31, 2015, which generally had higher gross margins than commercial and government sales.

Operating Expenses

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2015	2014	$	%
Sales and marketing	$86,671	$46,850	$39,821	85 %
General and administrative	48,654	33,011	15,643	47 %
Research and development	12,120	1,923	10,197	530%
Total operating expenses	$147,445	$81,784	$65,661	80 %

Sales and marketing expense increased by $39.8 million, or 85%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was primarily due to more expansive sales and marketing efforts, which have resulted in increases in customer backlog as defined in our key operating metrics, the number of customers, system installations and system deployments. This initiative increased the average number of personnel in sales and marketing departments by 117% for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. As a result of this growth in headcount, employee compensation costs increased by $29.5 million, and facilities and operations costs increased by $5.9 million. In addition, promotional marketing costs increased by $5.3 million. We expect that our increased investment in sales and marketing efforts will continue to drive customer acquisitions and the future growth of our business.

General and administrative expense increased by $15.6 million, or 47%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was primarily due to the increase in the average number of personnel in general and administrative departments, which grew by 96% for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. As a result of this growth in headcount, employee compensation costs increased by $8.1 million, and facilities and operations costs increased by $4.3 million. In addition, professional services fees increased by $2.6 million for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014 primarily due to increased legal and tax services fees.

Research and development expense increased by $10.2 million, or 530%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was primarily due to the greater level of research and development activities undertaken by Zep Solar, which we acquired in December 2013, and Silevo, which we acquired in September 2014, and the corresponding increase in the average number of personnel in research and development departments, which grew by 185% for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. As a result of this growth in headcount, employee compensation costs increased by $9.0 million, and facilities and operations costs increased by $2.2 million.

Other Income and Expenses

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2015	2014	$	%
Interest expense, net	$18,521	$7,979	$10,542	132 %
Other expense, net	2,104	25	2,079	8,316 %
Total interest and other expenses, net	$20,625	$8,004	$12,621	158 %

Interest expense, net, increased by $10.5 million, or 132%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. This increase was primarily due to the $9.9 million increase in interest expense, net, related to our cash borrowings as a result of higher average carrying balances on our borrowings for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014.

Other expense, net, increased by $2.1 million, and substantially on a percent basis or 8,316%, for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. The increase in other expense, net, was mainly due to $1.7 million charge related to the accretion of the contingent consideration payable related to the Silevo acquisition.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

(Dollars in thousands)	Three Months Ended March 31, 2015	2014	Change $	%
Net loss attributable to noncontrolling interests and redeemable noncontrolling	$(125,412)	$(51,155)	$(74,257)	(145)%

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

The net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended March 31, 2015 was $125.4 million while the net loss attributable to noncontrolling interests and redeemable noncontrolling interests for the three months ended March 31, 2014 was $51.2 million. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended March 31, 2015 was primarily due to the $121.8 million loss allocation from new financing funds into which we are selling or contributing assets. The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the three months ended March 31, 2014 was primarily due to $55.5 million loss allocation from financing funds into which we were selling or contributing assets, partially offset by a $2.1 million income allocation related to financing funds that were fully funded and that we were not selling or contributing additional assets.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated cash flows:

	Three Months Ended March 31, 2015	2014

	(in thousands)	
Consolidated cash flow data:		
Net cash used in operating activities	$(171,282)	$(23,308)
Net cash used in investing activities	(316,779)	(192,574)
Net cash provided by financing activities	430,361	158,353
Net decrease in cash and cash equivalents	$(57,700)	$(57,529)

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, solar asset-backed notes, convertible notes, Solar Bonds and cash generated from our operations. As described below under "—Financing Activities— Debt and Financing Fund Commitments," as of March 31, 2015, we had $825.7 million of available commitments from our fund investors that could be drawn based on the available capacity under our credit facilities through our asset monetization strategy and $363.6 million of unused borrowing capacity available under our debt agreements that could be drawn based on the available capacity under our credit facilities.

While we had a net loss for the three months ended March 31, 2015, we believe that the aggregate of our existing cash and cash equivalents and short-term investments of $575.8 million, in addition to the funds available under our debt agreements and the funds available in our existing financing funds that can be drawn-down through our asset monetization strategy, will be sufficient to meet our cash requirements for at least the next 12 months. However, if, in the future, we are unable to comply with all of the covenants contained in our debt agreements or we are unable to obtain waivers of any non-compliance, then we might be considered in default under our debt agreements. In that circumstance, the payments due under our debt agreements could be accelerated, which would negatively impact our liquidity and capital resources. Under the terms of our Revolving Credit Facility, we are subject to the following financial covenants:

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

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

Operating Activities

In the three months ended March 31, 2015, we utilized $171.3 million in net cash from operations. This cash outflow primarily resulted from a net loss of $146.9 million, reduced by non-cash items such as depreciation and amortization of $36.4 million, stock-based compensation of $18.4 million and non-cash interest and other expense of $3.8 million mainly related to financing obligations and deferred contingent consideration and increased by a reduction in financing obligations of $10.6 million. The cash outflow also increased in part due to an increase in inventories of $10.1 million, an increase of $47.6 million for MyPower deferred costs, an increase in prepaid expenses and other current assets of $7.7 million, an increase in other assets of $10.3 million and a decrease in accounts payable of $23.0 million. This cash outflow was offset by a decrease in restricted cash of $8.0 million, an increase in deferred revenue under our joint venture and lease pass-through structures of $5.3 million relating to upfront lease payments received from customers, solar energy system incentive rebate payments received from various state and local governments and deferred investment tax credits revenue and an increase in accrued and other liabilities of $15.9 million.

In the three months ended March 31, 2014, we utilized $23.3 million in net cash from operations. This cash outflow primarily resulted from a net loss of $75.2 million, reduced by non-cash items such as depreciation and amortization of $19.0 million, stock-based compensation of $12.8 million and non-cash interest and other expense of $1.4 million and increased by a reduction in lease pass-through financing obligation of $10.3 million. This cash outflow also increased in part due to a decrease in accounts payable of $22.7 million as we paid our suppliers, a decrease in accrued and other liabilities of $7.4 million, an increase in prepaid expenses and other current assets of $8.1 million. This cash outflow was offset by an increase in deferred revenue of $58.4 million relating to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments and deferred investment tax credits revenue, a decrease in restricted cash of $12.8 million and a decrease in inventories of $5.2 million.

Investing Activities

Our investing activities consist primarily of the purchase of solar energy systems.

In the three months ended March 31, 2015, we used $316.8 million in investing activities. Of this amount, we used $295.0 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and the design and installation of solar energy systems under MyPower contracts, and $30.5 million in the acquisition of vehicles, equipment, leasehold improvements and furniture. We also invested $44.6 million in short-term investments in highly rated corporate debt securities and asset-backed securities. These expenditures were offset by $53.3 million from sales and maturities of short-term investments.

In the three months ended March 31, 2014, we used $192.6 million in investing activities. Of this amount, we used $187.4 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and $4.7 million in the acquisition of vehicles, office equipment, leasehold improvements and furniture and $0.5 million for the acquisition of the redeemable noncontrolling interest related to a single joint venture financing fund.

Financing Activities

In the three months ended March 31, 2015, we generated $430.4 million from financing activities. We received $178.1 million, net of lender fees, from long-term debt and repaid $0.8 million of long-term debt. We received $96.2 million from the issuance of solar bonds. We repaid $5.8 million of the solar asset-backed notes. We received $6.4 million from fund investors in our financing funds and paid $4.9 million to fund investors in our financing funds. We also generated $176.3 million from proceeds from investments by various fund investors in our joint ventures and paid distributions to fund investors of $16.9 million.

In the three months ended March 31, 2014, we generated $158.4 million from financing activities. We received $100.5 million, net of lender fees, from long-term debt and repaid $51.0 million of long-term debt. We also repaid $0.4 million of our capital lease obligation. We received $0.2 million from U.S. Treasury Department grants associated with solar energy systems that we had leased to customers. We received $7.7 million from fund investors in our lease pass-through financing funds and paid $6.4 million to fund investors in our lease pass-through financing funds. We also generated $113.4 million from proceeds from investments by various fund investors in our joint ventures and paid distributions to fund investors of $9.3 million. Additionally, we received $5.1 million from the issuance of common stock upon the exercise of stock options for cash.

Debt and Financing Fund Commitments

	Unpaid Principal Balance	Carrying Value, Net of Fees Current	Long-Term	Unused Borrowing Capacity	Interest Rate	Maturity Dates
Recourse debt:						
Revolving credit facility	$175,000	$—	$172,321	$5,664	3.4%	December 2016
Vehicle loans	8,973	2,552	6,421	—	1.9%-7.5%	April 2015 - June 2019
2.75% Convertible senior notes due in 2018	230,000	—	230,000	—	2.8%	November 2018
1.625% Convertible senior notes due in 2019	566,000	—	566,000	—	1.6%	November 2019
Solar Bonds	9,714	1,658	7,982	—	1.6%-5.8%	October 2015 - March 2030
Solar Bonds issued to related parties	90,530	90,330	200	—	2.0%-4.0%	October 2015 - October 2021
Total recourse debt	1,080,217	94,540	982,924	5,664		
Non-recourse debt:						
Term loan assumed from Silevo acquisition	9,160	9,160	—	—	7.8%	June 2015
Term loan due in September 2015	79,000	—	76,968	—	3.7 %	September 2015
Term loan due in May 2016	34,622	—	32,753	90,378	3.2%	May 2016
Term loan due in December 2016	182,416	—	179,275	67,584	3.4%-3.5%	December 2016
MyPower revolving credit facility	—	—	—	200,000		January 2017
Solar Asset-backed Notes, Series 2013-1	48,839	3,332	45,507	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	67,067	2,823	64,244	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	196,250	6,355	189,895	—	4.0%-Class A 5.4%-Class B	July 2044
Total non-recourse debt	617,354	21,670	588,642	357,962		
Total debt	$1,697,571	$116,210	$1,571,566	$363,626		

Recourse Debt Facilities:

Revolving Credit Facility

In September 2012, we entered into a revolving credit agreement with a syndicate of banks to obtain funding for working capital, letters of credit and funding for general corporate needs. The committed amount under the revolving credit facility was increased from $75.0 million to $200.0 million in 2013. The committed amount includes $15.1 million that have been assigned to letters of credit. Borrowed funds bear interest, at our option, at an annual rate of (a) 3.25% plus LIBOR or (b) 2.25% plus the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The fee for undrawn commitments is 0.375% per annum. The revolving credit facility is secured by certain of our machinery and equipment, accounts receivable, inventory and other assets. In each of June, July, September, October and December 2014, the revolving credit facility was amended to increase certain debt covenant thresholds, including those related to permitted investment amounts and capital expenditures by us, to make certain changes in connection with our acquisition of Silevo and to make certain changes in connection with the issuance and payment of certain loans and debt, among other things. We were in compliance with all financial covenants as of March 31, 2015.

Vehicle Loans

We have entered into various vehicle loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed. We were in compliance with all financial covenants as of March 31, 2015.

2.75% Convertible Senior Notes Due in 2018

In October 2013, we issued $230.0 million in aggregate principal of 2.75% convertible senior notes due on November 1, 2018 through a public offering. The net proceeds from the offering, after deducting transaction costs, were $222.5 million. The debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 16.2165 shares of our common stock, which is equivalent to an initial conversion price of $61.67 per share, subject to adjustment upon the occurrence of specified events set forth in the applicable indenture. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change under the applicable indenture occur prior to the maturity date, we would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined fundamental changes. We were in compliance with all financial covenants as of March 31, 2015.

1.625% Convertible Senior Notes Due in 2019

In September 2014, we issued $500.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019 through a private placement. The net amount from the issuance, after deducting transaction costs, was $488.3 million. In October 2014, we issued an additional $66.0 million in aggregate principal of the 1.625% convertible senior notes, pursuant to the exercise of an option by the initial purchasers. The net amount from the additional issuance, after deducting transaction costs, was $64.5 million. The debt issuance costs were recorded in other assets and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each $1,000 of principal of the convertible senior notes is initially convertible into 11.972 shares of our common stock, which is equivalent to an initial conversion price of $83.53 per share, subject to adjustment upon the occurrence of specified events set forth in the applicable indenture. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change under the applicable indenture occur prior to the maturity date, we would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined fundamental changes. We were in compliance with all financial covenants as of March 31, 2015.

In connection with the issuance of the convertible senior notes in September 2014, we paid $57.6 million to enter into capped call option agreements to reduce the potential dilution to holders of our common stock upon conversion of the convertible senior notes. In connection with the additional issuance of the convertible senior notes in October 2014, we paid $7.6 million to enter into additional capped call option agreements. The capped call option agreements have a cap price of $126.08 and an initial strike price of $83.53, which is equal to the initial conversion price of the convertible senior notes. The capped call options expire on various dates ranging from September 4, 2019 to October 29, 2019. The capped call option agreements are separate transactions, are not a part of the terms of the convertible senior notes and do not affect the rights of the convertible senior note holders. The capped call option agreements met the criteria for equity classification and were recorded as reductions to additional paid-in capital. The capped call option agreements are excluded from the calculation of diluted net income (loss) per share attributable to common stockholders as their effect is antidilutive.

Solar Bonds

In October 2014, we commenced issuing Solar Bonds, which are senior unsecured obligations that are structurally subordinate to the indebtedness and other liabilities of our subsidiaries. Solar Bonds have been issued under multiple series that have various fixed terms and interest rates. We intend to continue to issue Solar Bonds from time to time depending on market conditions. In March 2015, Space Exploration Technologies Corporation, or SpaceX, purchased $90.0 million in aggregate principal amount of 2.00% Solar Bonds due in March 2016. SpaceX is considered a related party and participated in one of our bond offerings that we had in the market. We were in compliance with all debt covenants as of March 31, 2015.

Non-Recourse Debt Facilities:

Term Loan Assumed From Silevo Acquisition

Through the Silevo acquisition, we assumed a pre-existing term loan with an outstanding principal balance of $9.1 million. The term loan bears interest at a fixed rate of 7.8% per annum and is denominated in the Chinese Yuan. The term loan is a liability of a subsidiary of Silevo only and is non-recourse to us and our other subsidiaries. We were in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in September 2015

In March 2015, one of our subsidiaries entered into an agreement with a bank for a term loan of $79.0 million. The term loan bears interest, at our option, at an annual rate of (a) 3.50% plus LIBOR or (b) 3.50% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by certain assets and cash flows of certain of our subsidiaries and is non-recourse to our other assets or cash flows. On May 4, 2015, we fully paid-off the term loan with a portion of the proceeds from the solar asset-backed revolving credit facility (see below). We were in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in May 2016

On May 23, 2014, one of our subsidiaries entered into an agreement with a syndicate of banks for a term loan of $125.0 million. The term loan bears interest at an annual rate of 3.00% to 4.00%, depending on the cumulative period the term loan has been outstanding, plus LIBOR or, at our option, plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by certain assets and cash flows of the subsidiary and is non-recourse to our other assets or cash flows. We were in compliance with all financial covenants as of March 31, 2015.

Term Loan Due in December 2016

On February 4, 2014, one of our subsidiaries entered into an agreement with a syndicate of banks for a term loan of $100.0 million. On February 20, 2014, the agreement was amended to increase the maximum term loan availability to $220.0 million. On March 20, 2014, the agreement was further amended to increase the maximum term loan availability to $250.0 million. The term loan bears interest at an annual rate of LIBOR plus 3.25% or, at our option, 3.25% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan is secured by the assets and cash flows of the subsidiary and is non-recourse to our other assets. We were in compliance with all financial covenants as of March 31, 2015.

MyPower Revolving Credit Facility

On January 9, 2015, one of our subsidiaries entered into a $200.0 million revolving credit agreement with a syndicate of banks to obtain funding for the MyPower customer loan program. The MyPower revolving credit facility provides up to $160.0 million of Class A notes and up to $40.0 million of Class B notes. The Class A notes bear interest at an annual rate of 2.50% plus (a) the commercial paper rate or (b) 1.50% plus adjusted LIBOR. The Class B notes bear interest at an annual rate of 5.00% plus LIBOR. The fee for undrawn commitments is 0.50% per annum. The MyPower revolving credit facility is secured by the payments owed to us or our subsidiaries under the MyPower customer loan program and is non-recourse to our other assets. We were in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, Series 2013-1

We have structured and entered into various solar asset-backed note securitization transactions pursuant to our financial strategy of monetizing solar assets at the lowest cost of capital.

In November 2013, we pooled and transferred qualifying solar energy systems and the associated customer contracts into a special purpose entity, or SPE, and issued $54.4 million in aggregate principal of Solar Asset-backed Notes, Series 2013-1, backed by these solar assets to certain investors. The SPE is wholly owned by us and is consolidated in our financial statements. Accordingly, we did not recognize a gain or loss on the transfer of these solar assets. As of March 31, 2015, these solar assets had a carrying value of $142.5 million and are included under solar energy systems, leased and to be leased — net, in our condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.05%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to one of our wholly owned subsidiaries. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to our other creditors, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. We contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. We were in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, 2014-1

In April 2014, we pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to certain investors. The SPE is wholly owned by us and is consolidated in our financial statements. Accordingly, we did not recognize a gain or loss on the transfer of these solar assets. As of March 31, 2015, these solar assets had a carrying value of $133.2 million and are included under solar energy systems, leased and to be leased — net, in our condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to one of our wholly owned subsidiaries. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The assets and cash flows generated by the qualifying solar energy systems are not available to our other creditors, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. We contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. We were in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Notes, Series 2014-2

In July 2014, we pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued $160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and $41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, to certain investors. The SPE is wholly owned by us and is consolidated in our financial statements. Accordingly, we did not recognize a gain or loss on the transfer of these solar assets. As of March 31, 2014, these solar assets had a carrying value of $283.1 million and are included under solar energy systems, leased and to be leased — net, in our condensed consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through fund arrangement that we have accounted for as a borrowing. The rent paid by the investor under the lease pass-through fund arrangement is used (and, following the expiration of the lease pass-through fund arrangement, the cash generated by these solar assets will be used) to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to one of our wholly owned subsidiaries. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The assets and cash flows generated by these solar assets are not available to our other creditors, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. We contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems. We were in compliance with all financial covenants as of March 31, 2015.

Solar Asset-backed Revolving Credit Facility

On May 4, 2015, one of our subsidiaries entered into an agreement with a syndicate of banks for a revolving credit facility with a total committed amount of $500.0 million. On the same date, the subsidiary drew $113.1 million under the revolving credit facility and used a portion of the proceeds to fully pay-off the term loan due in September 2015. The revolving credit facility bears interest at an annual rate of 2.75% plus, at our option, LIBOR, the commercial paper rate or the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The revolving credit facility is secured by our interests in certain financing funds and is non-recourse to our other assets.

Financing Fund Commitments

We have financing fund commitments from several fund investors that we can draw upon in the future upon the achievement of specific funding criteria. As of March 31, 2015, we had entered into 44 financing funds that had a total of $825.7 million of undrawn committed capital. From our significant customer backlog, we allocate to our financing funds leases, power purchase agreements and the related economic benefits associated with the solar energy systems, in accordance with the criteria of each fund. Upon such allocation and upon our satisfaction of the conditions precedent to drawing upon such commitments, we are able to draw down on the financing fund commitments. Once received, these proceeds provide working capital to deliver solar energy systems to our customers and form part of our general working capital.

Off-Balance Sheet Arrangements

We include in our condensed consolidated financial statements all assets and 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 relationships with unconsolidated entities or financial partnerships or special purpose entities. Accordingly, we do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies and Procedures, to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations. Our primary exposures include changes in interest rates because certain borrowings bear interest at floating rates based on LIBOR plus a specified margin. Historically, we have managed our interest rate risk by balancing our amount of fixed-rate and floating-rate debt. For fixed-rate debt, interest rate changes do not affect our earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant. Pursuant to our risk management policies, we may also make use of derivative instruments to manage our short-term exposures to fluctuations in interest rates. We do not enter into any derivative instrument transactions for trading or speculative purposes. In addition, we have entered into capped call option agreements to reduce the potential dilution to holders of our common stock upon conversion of our convertible senior notes.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and other operating expenses and reducing our funds available for capital investments, operations or other purposes. In addition, we must use a substantial portion of our cash inflows to service our borrowings, which may affect our ability to make future acquisitions or capital expenditures. A hypothetical 10% change in our interest rates would have increased our interest expense for the three months ended March 31, 2015 and 2014 by $0.3 million and $0.2 million, 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 March 31, 2015, our disclosure controls and procedures were designed at a reasonable assurance level and were 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 the 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 Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July 2012, the Company, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in the Company's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to the Company's applications for U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for U.S Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S Treasury grant program, including possible misrepresentations concerning the fair market value of the solar energy systems submitted by the Company in U.S. Treasury grant applications. If the Inspector General concludes that misrepresentations were made, the U.S. Department of Justice could decide to bring a civil action to recover amounts it believes were improperly paid to the Company. If the U.S. Department of Justice is successful in asserting this action, the Company could then be required to pay material damages and penalties for any funds received based on such misrepresentations, which, in turn, could require the Company to make indemnity payments to certain fund investors. The Company is unable to estimate the possible loss, if any, associated with this ongoing investigation as information is still being produced by the Company for further review by the Inspector General.

On April 30, 2013, the U.S. Department of Labor, or DOL, notified the Company that it was undertaking a wage and hour investigation related to the Company's Foster City, California facility. On February 28, 2014, the DOL informed the Company that it had made a preliminary determination that some of its employee positions were not properly classified but has made no assessment of damages or penalties. In March 2015, the Company resolved the investigation by entering into a settlement agreement with the DOL. The amount of the settlement was not material to the Company's condensed consolidated financial statements.

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and two of its officers. The complaint alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of our securities from March 6, 2013 to March 18, 2014. On April 16, 2015, the District Court dismissed the complaint. The plaintiffs have until June 19, 2015 to file an amended complaint to attempt to remedy the defects in the original complaint. The Company believes that the claims are without merit and intends to defend itself vigorously. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

On June 5 and 11, 2014, stockholder derivative actions were filed in the Superior Court of California for the County of San Mateo, purportedly on behalf of the Company and against the board of directors, alleging that the board of directors breached its duties to the Company by failing to prevent the conduct alleged in the pending purported stockholder class action lawsuit. The Company and the individual board member defendants have filed a motion to dismiss the complaint. The Company is reviewing the claims asserted by the stockholders and is unable to estimate the possible loss, if any, associated with this lawsuit.

In June 2014, the Company along with Sunrun, Inc., or Sunrun, filed a lawsuit in the Superior Court of Arizona against the Arizona Department of Revenue, or DOR, challenging DOR's interpretation of Arizona state law to impose property taxes on solar energy systems that are leased by customers. Discovery has commenced, the Company and Sunrun filed a motion for summary judgment with the Superior Court and the DOR responded by filing its own motion. The Superior Court held a hearing on the motions on April 29, 2015 but has not yet issued a ruling. The Company intends to pursue its claims vigorously.

On March 2, 2015, the Company filed a lawsuit in the United States District Court for the District of Arizona against the Salt River Project Agricultural Improvement and Power District, or SRP, alleging that SRP's imposition of distribution charges and demand charges on new solar energy customers in its territory violates state and federal antitrust laws. Discovery has commenced, and the Company intends to pursue its claims vigorously.

From time to time, claims have been asserted, and may in the future be asserted, including claims from regulatory authorities related to labor practices and other matters. Such assertions arise in the normal course of the Company's operations. The resolution of any such assertions or claims cannot be predicted with certainty. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the Company's results of operations, prospects, cash flows, financial position and brand.

ITEM 1A. RISK FACTORS

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

Risks Related to our Operations

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

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

Future changes to government or internal utility regulations and policies that favor electric utilities could also 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. In particular, the Salt River Project in Arizona has imposed anticompetitive penalties on new solar customers in an attempt to exclude rooftop solar, and in response in March 2015 we filed a lawsuit in federal court in Arizona, asking the court to stop SRP's anti-competitive behavior. In the event that any such fees or charges are imposed, our ability to attract new customers and compete with the price of electricity generated by local utilities in these jurisdictions may be limited, and such unaccounted for increases in the fees or charges applicable to existing customer agreements may increase the cost of energy to those customers and result in an increased rate of defaults under our customer agreements. Any of these results could reduce demand for our solar energy systems, harm our business, prospects, financial condition and results of operations.

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

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

Our ability to sell solar energy systems and the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering in states that have implemented it, the failure to adopt a net metering policy where it currently is not in place, the imposition of new charges that only or disproportionately impact customers that utilize net metering or reductions in the amount or value of credit that customers receive through net metering. Our ability to sell solar energy systems and the electricity they generate may also 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. For example, utilities in some states, such as Hawaiian Electric Company, have proposed imposing additional monthly charges on customers who interconnect solar energy systems installed on their homes. If such charges are imposed, the cost savings associated with switching to solar energy may be significantly reduced and our ability to attract future customers and compete with traditional utility providers could be impacted.

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 in those markets. For example, California utilities limit net metering credit to 5% of the utilities' aggregate customer peak demand. California has adopted legislation to establish a process and timeline for developing a new net metering successor program for its largest utilities with no cap on participation. In addition to California, New York through the

Reimagining the Energy Vision docket at the state Public Service Commission is also considering a net metering successor program. If the caps on net metering in California, New York and other jurisdictions are reached or if the amount or value of credit that customers receive for net metering is significantly reduced, future customers will be unable to recognize the current cost savings associated with net metering. We rely substantially on net metering when we establish competitive pricing for our prospective customers and the absence of net metering for new customers could greatly limit demand for our solar energy systems.

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

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

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

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation and the exclusion of solar energy systems from property tax assessments. We rely on these governmental rebates, tax credits and other financial incentives to lower our cost of capital and to encourage 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) and Section 25D of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. The credit under Section 48(a)(3) is due to adjust to 10% in 2017 for commercial installations and residential systems owned by corporate third parties, and to be completely eliminated for residential installations owned by the homeowner pursuant to Section 25D, which is the major end market we serve. Solar energy systems that began construction prior to the end of 2011 were eligible to receive a 30% federal cash grant paid by the U.S. Treasury Department under Section 1603 of the American Recovery and Reinvestment Act of 2009, or the U.S. Treasury grant, in lieu of the Federal ITC. Pursuant to the Budget Control Act of 2011, U.S. Treasury grants are subject to sequestration beginning in 2013. Specifically, U.S. Treasury grants made on or after October 1, 2013 through September 30, 2015 will be reduced by approximately 7.2%, regardless of when the U.S. Treasury received the application. As a result, for all applications pending or submitted prior to March 31, 2015, we expect to suffer grant shortfalls of approximately $1.3 million associated with our financing funds. Applicable authorities may adjust or decrease incentives from time to time or include provisions for minimum domestic content requirements or other requirements to qualify for these incentives.

Reductions in, eliminations of, 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 March 31, 2015, approximately 98% of new customers chose to enter into financed lease, power purchase agreements or customer loans rather than buying a solar energy system for cash.

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

Our leases and power purchase agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives and whether third-party owned systems are eligible for net metering and the associated significant cost savings. In some states and utility territories, third parties that own solar energy systems are limited in the way that they may deliver solar energy to their customers. In jurisdictions such as Arizona, Florida, Georgia, Iowa, Kentucky, North Carolina, Oklahoma and the Los Angeles Department of Water and Power service territory, laws have been interpreted to prohibit the sale of electricity pursuant to our standard power purchase agreement. This has led us and other solar energy system providers that utilize third-party ownership arrangements to offer leases rather than power purchase agreements in such jurisdictions. Imposition of such limitations in additional jurisdictions or reductions in, or eliminations of, incentives for third-party owned systems could reduce demand for our systems, adversely impact our access to capital and 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 solar energy installation industry, including us. The subpoena we received requires us to deliver certain documents in our possession relating to our participation in the U.S. Treasury grant program. These documents are being delivered to the Office of the Inspector General of the U.S. Department of Treasury, which is investigating the administration and implementation of the U.S. Treasury grant program.

In July 2012, we and other companies that are significant participants in both the solar industry and the cash grant program under Section 1603 of the American Recovery and Reinvestment Act of 2009 received subpoenas from the U.S. Department of Treasury's Office of the Inspector General to deliver certain documents in our respective possession. In particular, our subpoena requested, among other things, documents dated, created, revised or referred to since January 1, 2007 that relate to our applications for U.S. Treasury grants or communications with certain other solar 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 solar companies, including us. We intend to cooperate fully with the Inspector General and the Department of Justice and continue to produce documents and testimony as requested by the Inspector General. We anticipate that the Inspector General will require at least another six to nine months to conclude its review. If, at the conclusion of the investigation, the Inspector General concludes that misrepresentations were made, the Department of Justice could bring a civil action to recover amounts it believes were improperly paid to us. If the Department of Justice were successful in asserting such an 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. The Internal Revenue Service and the U.S. Treasury Department may subsequently audit the fair market value and determine that amounts previously awarded must be repaid to the U.S. Treasury Department or that excess awards constitute taxable income for U.S. federal income tax purposes. A small number of our financing funds are undergoing such audits. 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 to be less than we reported, we may owe our financing fund or fund investors an amount equal to this difference, plus any costs and expenses associated with a challenge to that valuation. We could also be subject to tax liabilities, including interest and penalties.

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

The Internal Revenue Service or the U.S. Treasury Department may object to the fair market value of solar energy systems that we have constructed, or will construct, including any systems for which grants have already been paid, as a result of:

- any pending or future audit,
- the outcome of the Department of Treasury Inspector General investigation, or
- changes in guidelines or otherwise.

If the Internal Revenue Service or the U.S. Treasury Department were to object to amounts we have claimed as too high of a fair market value on such systems, it could have a material adverse effect on our business, financial condition and prospects. For example, a hypothetical 5% downward adjustment in the fair market value in the approximately $501.1 million of U.S. Department of Treasury grant applications that have been awarded from the beginning of the U.S. Treasury grant program through March 31, 2015 would obligate us to repay approximately $25.1 million to our fund investors.

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

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

The U.S. government has imposed tariffs on solar cells manufactured in China. Based on determinations by the U.S. government under the 2012 solar trade case, the anti-dumping and countervailing tariff rates range from approximately 33%-255%. Such anti-dumping and countervailing tariffs are subject to annual review and may be increased or decreased. Under the most recent preliminary annual review, the tariff rates under the 2012 trade case covering solar cells manufactured in China have been decreased. These tariffs have increased the price of solar panels containing Chinese-manufactured solar cells. In the past, we purchased a significant portion of the solar panels used in our solar energy systems from manufacturers based in China. Currently, many of the solar panels we purchase contain components from China or Taiwan. The purchase price of solar panels containing solar cells manufactured in China reflects these tariff penalties. While solar panels containing solar cells manufactured outside of China are not subject to these tariffs, the prices of these solar panels are, and may continue to be, more expensive than panels produced using Chinese solar cells, before giving effect to the tariff penalties.

In addition, the U.S. government is conducting trade investigations relating to solar modules manufactured in China (with cells from other countries) and cells manufactured in Taiwan. In early January 2015, the U.S. government announced its affirmative final determinations in both the countervailing duty and anti-dumping cases against China and in the anti-dumping case again Taiwan. The new preliminary tariffs do not apply to modules with Chinese solar cells. Those modules are still covered by the existing tariffs from the first 2012 trade case.

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

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

Our ability to provide solar energy systems to new 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, our reliance on these tax-advantaged financing structures has substantially increased. If, for any reason, we were unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain solar energy systems for new customers on an economically viable basis.

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

- our ability to compete with other renewable energy companies for the limited number of potential fund investors, each of which has limited funds and limited appetite for the tax benefits associated with these financings;
- the state of financial and credit markets;
- changes in the legal or tax risks associated with these financings; and
- non-renewal of these incentives or decreases in the associated benefits.

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

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 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 reduce the cost of capital through these arrangements to improve our margins, offset future reductions in government incentives and maintain the price competitiveness of our solar energy systems. If we are unable to establish new financing funds when needed, or on 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. Our ability to draw on financing commitments is subject to the conditions of the agreements underlying our financing funds. If we do not satisfy such conditions due to events related to our business or a specific financing fund, 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, challenges raising new funds have caused us to delay deployment of a substantial number of solar energy systems for which we had already 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 the continued confidence of banks and other financing sources 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. In addition, attracting future financing could be more difficult or costly to secure if the quality of our customer contracts, as perceived by our fund investors, were to decrease as a result of an increase in customer default rates, lower credit rating requirements for new customers or other factors. 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, local and foreign governments. If this support diminishes, our ability to obtain external financing, on acceptable terms or otherwise could be materially adversely affected. In addition, we face competition for these third-party 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 are available to 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 cancellations and could impair our ability to accept new projects and customers. In addition, our borrowing costs could increase, which would have a material adverse effect on our business, financial condition and results of operations.

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

We believe that a customer's decision to buy renewable energy from us is primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or 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, including as a result of new drilling techniques or a relaxation of associated regulatory standards;
- the development of energy conservation technologies and public initiatives to reduce electricity consumption; and
- the 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 for any reason, we would be at a competitive disadvantage. As a result, we may be unable to attract new customers and our growth would be limited.

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

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

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

In September 2014, Silevo entered into an amended and restated research and development alliance agreement, referred to as the Riverbend Agreement, with the Research Foundation for the State University of New York, referred to as the Foundation, for the construction of an approximately 1 million square foot manufacturing facility capable of producing 1-gigawatt of solar panels annually on an approximately 88.24 acre site located in Buffalo, New York, referred to as the Manufacturing Facility.

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

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

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

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

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

We currently anticipate that the Manufacturing Facility will be completed and ready to commence operations in the first quarter of 2016. To date, we have agreed on four occasions to extend the time period that the Foundation is to enter into reasonably acceptable construction contracts. There are a number of risks which may delay the completion of the Manufacturing Facility and commencement of operations, including:

- failure or delay in obtaining necessary permits, licenses or other governmental support or approvals;
- the time necessary for the construction of related utility and infrastructure improvements;
- unforeseen engineering problems;
- the inability to identify and hire qualified construction and other workers on a timely basis or at all;
- construction delays and contractor performance shortfalls;
- work stoppages or labor disruptions, including efforts by our employees to enter into collective bargaining agreements;
-

availability of raw materials and components from suppliers and any delivery delays in such materials or components;
- delays resulting from environmental conditions, and any design changes or additions necessary to remediate prior environmental hazards at the site; and
- adverse weather conditions, such as an extreme winter, and natural disasters.

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

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

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

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

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

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

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

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

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 our customers who enter into these leases and power purchase agreements. If the rate of return required by the fund investor rises as a result of a rise in interest rates, it will reduce the present value of the customer payment stream and consequently reduce the total value that we are able to derive from monetizing the payment stream. Interest rates are at historically low levels, partially as a result of intervention by the U.S. Federal Reserve. The U.S. Federal Reserve has taken actions to taper its intervention, and should these actions continue, it is likely that interest rates will rise, which could cause our cost of capital to increase and impede our ability to secure financing. As a result, our business and financial condition could be harmed.

In addition, we evaluate our business with a long-term view based on cash flows relating to our customer agreements, third-party financing funds and other arrangements. To date, we have taken limited actions to mitigate the risk of rising future interest rates. In 2014, we initiated a strategy of purchasing limited long-term derivative securities to hedge the effect of future interest rate increases. We may continue to engage in such transactions and the cost and outcomes of such transactions are currently not known.

If we are unable to maintain effective internal controls over financial reporting and disclosure controls and procedures, or if material weaknesses are discovered in future periods, the accuracy and timeliness of our financial and operating reporting may be adversely affected, and confidence in our operations and disclosures may be lost.

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

As a result of significant efforts by us and our Audit Committee, we have successfully remediated these material weaknesses and improved our internal control over financial reporting.

In connection with this quarterly report on Form 10-Q, our management has performed an evaluation of our internal control over financial reporting as of March 31, 2015 pursuant to Section 404 of the Sarbanes-Oxley Act, and has concluded that our internal control over financial reporting and our disclosure controls and procedures were effective as of March 31, 2015.

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

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 energy systems in a given fund or on 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 such a true up, the lease payments are resized and we may be obligated to refund the investor’s lease prepayments or to contribute additional assets to the fund. Any significant refunds or capital contributions that we may be required to make could adversely affect our financial condition.

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

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

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

On September 23, 2014, we acquired Silevo, Inc., a solar panel technology and manufacturing company. In 2013, we acquired Zep Solar, Common Assets, certain assets of Paramount Solar and completed other smaller acquisitions. In the future, we may acquire additional companies, project pipelines, products or technologies, including additional photovoltaics companies, or enter into joint ventures or other strategic initiatives. Our ability as an organization to integrate acquisitions is unproven. We may not realize the anticipated benefits of our acquisitions or any other future acquisition or the acquisition may be viewed negatively by customers, financial markets or investors.

Any acquisition has numerous risks, including the following:

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current products and technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company’s accounting, management information and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, vendors, and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- failure of due diligence processes to identify significant issues with product quality, legal and financial liabilities, among other things;
- inability to assert that internal controls over financial reporting are effective; and
- inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

In connection with our acquisitions of Silevo, Zep Solar and Paramount Solar, we issued approximately 8.8 million shares of our common stock. In connection with our acquisition of Silevo, we may issue additional common stock with an aggregate value of up to $150 million, subject to adjustments, upon the timely achievement of all earnout related milestones. In addition, we typically offer additional equity compensation to continuing employees of these businesses. If we are unable to successfully integrate these businesses and technologies or are unable to otherwise achieve the anticipated benefits of these acquisitions, the related issuances of our securities may be highly dilutive to our existing stockholders.

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

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

To complete current and future customer projects and to continue to grow our customer base, we need to hire a large number of installers in the relevant markets. Competition for qualified personnel in our industry is increasing, particularly for skilled installers and other personnel involved in the installation of solar energy systems. We also compete with the homebuilding and construction industries for skilled labor. As these industries seek to hire additional workers, our cost of labor may increase. The unionization of our labor force could also increase our labor costs. Shortages of skilled labor could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project. In addition, because we are headquartered in the San Francisco Bay Area, we compete for a limited pool of technical and engineering resources that requires us to pay wages that are competitive with relatively high regional standards for employees in these fields.

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

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

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

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

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

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

We have incurred net losses in the past, and we had an accumulated deficit of $279.9 million as of March 31, 2015. 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 and services that could help them compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity is non-solar, which may allow utilities to sell electricity more cheaply than electricity generated by our solar energy systems.

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

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

Projects for our significant commercial and 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. 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 could 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 our ability to effectively compete.

We purchase solar panels, inverters and other system components from a limited number of suppliers, which makes us susceptible to quality issues, shortages and price changes. If we fail to develop, maintain and expand our relationships with existing or new 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 satisfy this demand due to an inability to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms. In particular, there are a limited number of inverter suppliers. Once we design a system for use with a particular inverter, if that type of inverter is not readily available at an anticipated price, we may incur additional delay and expense to redesign the system.

In addition, production of solar panels involves the use of numerous raw materials and components. Several of these have experienced periods of limited availability, particularly polysilicon, as well as indium, cadmium telluride, aluminum and copper. The manufacturing infrastructure for some of these raw materials and components has a long lead time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. The prices for these raw materials and components fluctuate depending on global market conditions and demand and we may experience rapid increases in costs or sustained periods of limited supplies.

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

Any decline in the exchange rate of the U.S. dollar compared to the functional currency of our component suppliers could increase our component prices. In addition, the state of the financial markets could limit our suppliers' ability to raise capital if they are required to expand their production to meet our needs or satisfy their operating capital requirements. Changes in economic and business conditions, wars, governmental changes and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' solvency and ability to deliver components to us on a timely basis. Any of these shortages, delays or price changes could limit our growth, cause cancellations or adversely affect our profitability and ability to effectively complete in the markets in which we operate.

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 public company operating in a rapidly growing industry, those fluctuations may be masked by our recent growth rates and thus may not be readily apparent from our historical operating results. As such, our past quarterly operating results may not be good indicators of future performance.

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

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

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

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

We are a licensed contractor or use licensed subcontractors in every community we service, and we are responsible for every customer installation. For our residential projects, we are the general contractor, construction manager and installer. For our commercial projects, we are the general contractor and construction manager, and we typically rely on licensed subcontractors to install these commercial systems. We may be liable to customers for any damage we cause to their home or facility and 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 not cover our costs for that project.

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

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

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems. The evaluation and installation of our energy-related products requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. We also maintain a fleet of over 3,000 vehicles that our employees use in the course of their work. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, and equivalent state laws. Changes to OSHA requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures or suspend or limit operations. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines and operational delays for certain projects. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

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

Our solar energy system warranties are lengthy. Customers who buy energy from us under leases or power purchase agreements are covered by warranties equal to the length of the term of these agreements—typically 20 years for leases and power purchase agreements and 30 years for MyPower loan agreements. 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, leaving us to fulfill these potential obligations to our customers. For example, Evergreen Solar, Inc., one of our former solar panel suppliers, filed for bankruptcy in August 2011. Further, we provide a performance guarantee with our leased solar energy systems that compensates a customer on an annual basis if their system does not meet the electricity production guarantees set forth in their lease.

Because of the limited operating history of our solar energy systems, we have been required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims and the durability, performance and reliability of our solar energy systems. We have made these assumptions based on the historic performance of similar systems or on accelerated life cycle testing. Our assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial expense to repair or replace defective solar energy systems in the future or to compensate customers for systems that do not meet their production guarantees. Product failures or operational deficiencies would also 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 and recycling of our solar energy systems. Consequently, if the residual value of the systems is less than we expect at the end of the lease, after giving effect to any associated removal and redeployment costs, we may be required to accelerate all or some of the remaining unamortized expenses. This could materially impair our future operating results.

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

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

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

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

We would be exposed to product liability claims if one of our solar energy systems or other products injured someone. 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 for many reasons, including product malfunctions, defects or improper installation. 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 could divert management’s attention. Any product liability claims against us and any resulting adverse outcomes 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 or 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. Our brand and reputation could be significantly impaired 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. 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. In addition to our other marketing efforts, we also depend greatly on referrals from existing customers for our growth. 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 investments in our infrastructure. Our success and ability to further scale our business will depend in part on our ability to manage these changes in a cost-effective and efficient manner. If we cannot manage our growth, we may be unable to take advantage of market opportunities, execute our business strategies or respond to competitive pressures. This could also result in declines in quality or customer satisfaction, increased costs, difficulties in introducing new products and services or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

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

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

Our growth 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, in an effort to generate new customers, we are investing resources in establishing relationships with leaders in other industries, such as trusted retailers and commercial homebuilders. Identifying partners and negotiating relationships requires significant time and resources. Our ability to grow our business could be impaired if we are unsuccessful in establishing or maintaining our relationships with these third parties. Even if we are able to establish these relationships, we may not be able to execute our goal of leveraging these relationships to meaningfully expand our business and customer base. This would limit our growth potential and our opportunities to generate significant additional revenue or cash receipts.

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

We depend on our experienced management team and the loss of one or more key executives could have a negative impact on our business. In particular, we are dependent on the services of our chief executive officer and co-founder, Lyndon R. Rive, and our chief technology officer and co-founder, Peter J. Rive. We also depend on our ability to retain and motivate key employees and attract qualified new employees. Our founders and our key employees are not bound by employment agreements for any specific term, and as a result, 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.

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 or replacing 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.

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

We believe that the success of our business depends in part on our proprietary technology, including our hardware, software, information, processes and know-how. We rely on many forms of intellectual property rights to secure our technology, including trade secrets and patents. We cannot be certain that we have adequately protected or will be able to adequately protect our technology, that our competitors will not be able to use our existing technology or develop similar technology independently, that any patents or other intellectual property rights held by us will be broad enough to protect our technology or that foreign intellectual property laws will adequately protect us. Moreover, our patents and other intellectual property rights may not provide us with a competitive advantage.

Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our consent. Reverse engineering, unauthorized use or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without compensating us for doing so. In addition, our proprietary technology may not be adequately protected because:

- our systems may be subject to intrusions, security breaches or targeted thefts of our trade secrets;
- people may not be deterred from misappropriating our technology despite the existence of laws or contracts prohibiting it;
- unauthorized use of our intellectual property may be difficult to detect and expensive and time-consuming to remedy, and any remedies obtained may be inadequate to restore protection of our intellectual property;
- the laws of other countries in which we manufacture our solar products, such as Silevo's joint venture manufacturing company with partners in China and other countries in the Asia/Pacific region, may offer little or no protection for our proprietary technology; and
- reports we may be required to file in connection with any government-sponsored research contracts may disclose some of our sensitive confidential information because they are or will be generally available to the public.

Any such activities or any other inabilities to adequately protect our proprietary rights could harm our ability to compete, to generate revenue and to grow our business.

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

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

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

We are involved in claims, legal proceedings and receive inquiries from government and regulatory agencies (such as the pending Treasury and Department of Labor investigations) that arise from the normal business activities. In addition, from time to time, third parties may assert claims against us. We evaluate all claims, lawsuits and investigations with respect to their potential merits, our potential defenses and counter claims, settlement or litigation potential and the expected effect on us. In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, we could be exposed to costly and time-consuming legal proceedings that could result in any number of outcomes. Although outcomes of such actions vary, any claims, proceedings or regulatory actions initiated by or against us, whether successful or not, could result in expensive costs of defense, costly damage awards, injunctive relief, increased costs of business, fines or orders to change certain business practices, significant dedication of management time, diversion of significant operational resources or some other harm to our business. In any of these cases, our business, financial condition, results of operations or the trading price for our securities could be negatively impacted.

We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. In our opinion, resolution of all current matters is not expected to have a material adverse impact on our business, financial condition or results of operations. However, depending on the nature and timing of any such controversy, an unfavorable resolution of a matter could materially affect our future business, financial condition or results of operations, or all of the foregoing, in a particular quarter.

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 Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations subject us to 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 are 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.

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

We typically bear the risk of loss and are generally obligated to cover the cost of maintenance and repair on any solar systems that we sell or lease to our fund investors. At the time we sell or lease a solar system to a fund investor, we enter into a maintenance services agreement where we agree to operate and maintain the system for a fixed fee that is calculated to cover our future expected maintenance costs. If our solar systems require an above-average amount of repairs or if the cost of repairing systems were higher than our estimate, we would need to perform such repairs without additional compensation. If our solar systems, a majority of which are located in California, are damaged in the event of a natural disaster beyond our control, losses could be excluded, such as earthquake damage, or exceed insurance policy limits, and we could incur unforeseen costs that could harm our business and financial condition. We may also incur significant costs for taking other actions in preparation for, or in reaction to, such events. We purchase Property and Business Interruption insurance with industry standard coverage and limits approved by an investor’s third-party insurance advisors to hedge against such risk, but such coverage may not cover our losses.

Any unauthorized disclosure or theft of personal customer 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 could harm our business, whether through breach of our systems by an unauthorized party, employee theft or misuse, or otherwise. 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 in our possession, 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 customer information. Finally, any perceived or actual unauthorized disclosure of such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business.

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

Our total consolidated indebtedness was $1,687.8 million as of March 31, 2015. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. In addition, our 2.75% Convertible Senior Notes due 2018 issued in November 2013 (the “2018 Notes”) and our 1.625% Convertible Senior Notes due 2019 issued in September and October 2014 (the “2019 Notes” and together with the 2018 Notes, the “Notes”), are convertible into shares of common stock, and we may engage in similar issuances of convertible securities in the future to fund our operating and expansion plans. Our ability to issue additional securities and to refinance our existing indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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

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

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

We have entered into several secured credit agreements, including a working capital facility under which we may currently borrow up to $250.0 million (with $200.0 million currently committed from several lenders and an additional $50.0 million subject to further conditions) that matures in December 2016. As of March 31, 2015, we had the ability to draw up to an additional $363.6 million under our credit facilities. The working capital facility requires us to comply with certain financial, reporting and other requirements. The timing of our commercial projects has on occasion adversely affected our ability to satisfy certain financial covenants under these or prior facilities. While our lenders have given us waivers of certain covenants we have not satisfied in the past, there is no assurance that the lenders will waive or forbear from exercising their remedies with respect to any future defaults that might occur. In addition, we have amended our revolving credit facility to engage in transactions such as the issuance of the 2019 Notes and issue Solar Bonds debt securities. While we believe that some of the financial and other covenants are generally more favorable to us following these changes, a breach of our covenants may still occur in the future.

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

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

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

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

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

- the inability to work successfully with third parties with local expertise to co-develop international projects;
- multiple, conflicting and changing laws and regulations, including export and import restrictions, tax laws and regulations, environmental regulations, labor laws and other government requirements, approvals, permits and licenses;
- changes in general economic and political conditions in the countries where we operate, including changes in government incentives relating to power generation and solar electricity;
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- international business practices that may conflict with U.S. customs or legal requirements;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable;

- fluctuations in currency exchange rates relative to the U.S. dollar; and
- the inability to obtain, maintain or enforce intellectual property rights, including inability to apply for or register material trademarks in foreign countries.

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

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

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

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

Risks Related to the Ownership of Our Common Stock

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

The trading price of our common stock has been volatile since our initial public offering. Since shares of our common stock were sold in our initial public offering in December 2012 at a price of $8.00 per share, the reported high and low sales prices of our common stock on The NASDAQ Stock Market has ranged from $9.20 to $88.35 per share, through May 5, 2015. The market price of our common stock may fluctuate widely in response to many risk factors listed in this section and others beyond our control, including:

- changes in laws or regulations applicable to our industry, products or services, including the effects of tariffs and other anti-competitive actions;
- additions or departures of key personnel;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts;
- price and volume fluctuations in the overall stock market;
- volatility in the market price and trading volume of companies in our industry or companies that investors consider comparable;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- addition or loss of significant customers;
- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us or our stockholders, including as a result of recent offerings and acquisitions;
- litigation involving us, our industry or both;

- major catastrophic events; and
- general economic and market conditions and trends.

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

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

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

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Such sales may occur in connection with our acquisitions, such as our issuance of approximately 8.8 million shares in the aggregate for our acquisitions of Silevo, Zep Solar and certain assets of Paramount Solar. In connection with our acquisition of Silevo, we may issue additional common stock with an aggregate value of up to $150.0 million, subject to adjustments and as determined in connection with the merger agreement, upon the timely achievement of all earnout related milestones. In addition, holders of a substantial amount of our common stock are entitled to rights with respect to registration of these shares under the Securities Act pursuant to an investors' rights agreement. If these holders of our common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

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

As of March 31, 2015, 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 34% 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;
- authorizing the board of directors to make, alter or repeal our bylaws; and
- establishing advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

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

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

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business and 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).

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: May 6, 2015

SOLARCITY CORPORATION

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

(Principal Executive Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
4.11*	Indenture, dated as of January 9, 2015, by and between FTE Solar I, LLC and U.S. Bank National Association.
10.16c	Third Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of February 12, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.
10.16d	Fourth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of March 30, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.
10.17a*	Standard Definitions, Annex A to the Indenture, dated as of January 9, 2015, by and between FTE Solar I, LLC and U.S. Bank National Association.
10.17b*	Note Purchase Agreement, dated January 9, 2015, by and among FTE Solar I, LLC, SolarCity Finance Company, LLC, SolarCity Corporation, Purchasers, the Funding Agents and Credit Suisse AG, New York Branch.
10.18*	Credit Agreement, dated as of March 31, 2015, by and among Shortfin Solar, LLC (an indirect wholly owned subsidiary of the Registrant), as borrower, the Registrant, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Schema Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Labels Linkbase Document.

101.PRE XBRL Taxonomy Presentation Linkbase Document.

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

† 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.