Sunrun Inc.
Form 10-Q
September 15, 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 June 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-37511

Sunrun Inc.

(Exact name of registrant as specified in its charter)

Delaware	26-2841711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

595 Market Street, 29th Floor

San Francisco, California 94105

(Address of principal executive offices and Zip Code)

(415) 580-6900

(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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES o NO x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of September 11, 2015, the number of shares of the registrant's common stock outstanding was 100,814,572.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SUNRUN INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share values)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 116,610	$ 152,154
Restricted cash	5,764	2,534
Accounts receivable (net of allowances for doubtful accounts of $1,045 and $703 as of June 30, 2015 and December 31, 2014, respectively)	49,619	43,189
Grants receivable	—	5,183
Inventories	37,804	23,914
Prepaid expenses and other current assets	16,698	9,560
Deferred tax assets, current	2,559	3,048
Total current assets	229,054	239,582
Restricted cash	7,390	6,012
Solar energy systems, net	1,695,728	1,480,223
Property and equipment, net	27,229	22,195
Intangible assets, net	24,808	13,111
Goodwill	87,555	51,786
Prepaid tax asset	142,785	109,381
Other assets	26,201	13,342
Total assets(1)	$ 2,240,750	$ 1,935,632
Liabilities and total equity		
Current liabilities:		
Accounts payable	$ 69,566	$ 51,166
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	6,463	6,764
Accrued expenses and other liabilities	42,833	25,445
Deferred revenue, current portion	51,929	44,398
Deferred grants, current portion	14,002	13,754
Capital lease obligation, current portion	3,928	1,593
Long-term debt, current portion	1,824	2,602
Lease pass-through financing obligation, current portion	3,321	5,161
Total current liabilities	193,866	150,883
Deferred revenue, net of current portion	510,346	467,726
Deferred grants, net of current portion	219,380	226,801
Capital lease obligation, net of current portion	7,210	5,761

Line of credit	140,024	48,597
Long-term debt, net of current portion	195,874	188,052
Lease pass-through financing obligation, net of current portion	203,392	180,224
Other liabilities	3,431	2,424
Deferred tax liabilities	145,344	112,597
Total liabilities(1)	1,618,867	1,383,065
Redeemable noncontrolling interests	151,288	135,948
Stockholders' equity:		
Convertible preferred stock, $0.0001 par value—authorized, 57,028 shares as of June 30, 2015 and December 31, 2014, respectively; issued and outstanding, 54,841 and 54,841 shares as of June 30, 2015 and December 31, 2014, respectively; aggregate liquidation value of $305,883 as of June 30, 2015 and December 31, 2014, respectively	5	5
Common stock, $0.0001 par value—authorized, 125,047 and 119,547 shares as of June 30, 2015 and December 31, 2014, respectively; issued and outstanding, 26,503 and 24,429 shares as of June 30, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	411,890	383,860
Accumulated other comprehensive loss	1,425	—
Accumulated deficit	(69,458)	(59,003)
Total stockholders' equity	343,864	324,864
Noncontrolling interests	126,731	91,755
Total equity	470,595	416,619
Total liabilities, redeemable noncontrolling interests and total equity	$ 2,240,750	$ 1,935,632

(1) The Company's consolidated assets as of June 30, 2015 and December 31, 2014 include $1,202,608 (unaudited) and $986,878, respectively, in assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. Solar energy systems, net, as of June 30, 2015 and December 31, 2014 were $1,113,088 (unaudited) and $942,655, respectively; cash and cash equivalents as of June 30, 2015 and December 31, 2014 were $72,983 (unaudited) and $29,099, respectively; restricted cash as of June 30, 2015 and December 31, 2014 were $729 (unaudited) and $593, respectively; accounts receivable, net as of June 30, 2015 and December 31, 2014 were $15,609 (unaudited) and $14,351. respectively; prepaid expenses and other current assets as of June 30, 2015 and December 31, 2014 were $199 (unaudited) and $180, respectively. The Company's consolidated liabilities as of June 30, 2015 and December 31, 2014 include $504,377 (unaudited) and $474,348, respectively, in liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable as of June 30, 2015 and December 31, 2014 of $16,765 (unaudited) and $9,057, respectively; distributions payable to noncontrolling interests and redeemable noncontrolling interests as of June 30, 2015 and December 31, 2014 of $6,413 (unaudited) and $6,426, respectively; accrued expenses and other liabilities as of June 30, 2015 and December 31, 2014 of $162 (unaudited) and $340, respectively; deferred revenue as of June 30, 2015 and December 31, 2014 of $329,114 (unaudited) and $301,792, respectively; deferred grants as of June 30, 2015 and December 31, 2014 of $119,704 (unaudited) and $123,351, respectively; and long-term debt as of June 30, 2015 and December 31, 2014 of $32,219 (unaudited) and $33,382, respectively.

SUNRUN INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share values)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Operating leases and incentives	$ 34,458	$ 22,987	$ 56,766	$ 41,428
Solar energy systems and product sales	38,232	28,952	65,601	40,914
Total revenue	72,690	51,939	122,367	82,342
Operating expenses:				
Cost of operating leases and incentives	27,067	17,359	48,444	32,255
Cost of solar energy systems and product sales	34,624	25,333	59,954	35,808
Sales and marketing	33,976	17,173	58,902	29,762
Research and development	2,492	1,999	4,779	3,926
General and administrative	19,677	20,037	39,983	32,687
Amortization of intangible assets	1,051	655	1,593	1,118
Total operating expenses	118,887	82,556	213,655	135,556
Loss from operations	(46,197)	(30,617)	(91,288)	(53,214)
Interest expense, net	8,433	6,662	15,563	12,324
Loss on early extinguishment of debt	431	—	431	—
Other expenses	1,019	1,386	1,318	1,846
Loss before income taxes	(56,080)	(38,665)	(108,600)	(67,384)
Income tax benefit	(6,215)	(5,917)	(6,215)	(10,043)
Net loss	(49,865)	(32,748)	(102,385)	(57,341)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(57,405)	(15,517)	(91,930)	(28,389)
Net income (loss) attributable to common stockholders	$ 7,540	$ (17,231)	$ (10,455)	$ (28,952)
Less: Net income allocated to participating securities	(7,540)	—	—	—
Net income (loss) available to common stockholders	$ —	$ (17,231)	$ (10,455)	$ (28,952)
Net income (loss) per share available to common shareholders—basic and diluted	$ —	$ (0.72)	$ (0.41)	$ (1.35)
Weighted average shares used to compute net loss per share available to common stockholders—basic and diluted	26,215	23,827	25,322	21,437

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SUNRUN INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net income (loss) attributable to common stockholders	$7,540	$(17,231)	$(10,455)	$(28,952)
Other comprehensive income:				
Unrealized gain on derivatives, net of tax expense of $904 for the three months and six months ended June 30, 2015	2,861	—	1,069	—
Less reclassification of net loss on derivatives to earnings	(356)	—	(356)	—
Comprehensive loss	$10,757	$(17,231)	$(9,030)	$(28,952)

SUNRUN INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months Ended June 30, 2015	2014
Operating activities:		
Net loss	$(102,385)	$(57,341)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on early extinguishment of debt	431	—
Depreciation and amortization, net of amortization of deferred grants	32,673	22,493
Bad debt expense	739	124
Interest on lease pass-through financing	7,177	4,006
Noncash tax benefit	(6,215)	(10,043)
Noncash interest expense	4,443	1,185
Stock—based compensation expense	6,421	4,310
Reduction in lease pass—through financing obligations	(10,379)	(4,890)
Changes in operating assets and liabilities:		
Accounts receivable	(4,216)	(740)
Inventories	(13,890)	2,993
Prepaid and other assets	(8,615)	52
Accounts payable	22,751	6,895
Accrued expenses and other liabilities	6,209	710
Deferred revenue	20,254	40,305
Net cash provided by (used in) operating activities	(44,602)	10,059
Investing activities:		
Payments for the costs of solar energy systems, leased and to be leased	(257,806)	(178,741)
Purchases of property and equipment	(4,688)	(3,712)
Acquisitions of businesses, net of cash acquired	(14,575)	(36,384)
Net cash used in investing activities	(277,069)	(218,837)
Financing activities:		
Proceeds from grants and state tax credits	5,120	107
Proceeds from issuance of debt	153,200	13,546
Repayment of debt	(54,956)	(2,017)
Payment of debt fees	(2,801)	(225)
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	143,393
Proceeds from lease pass-through financing obligations	52,034	90,387
Contributions received from noncontrolling interests and redeemable noncontrolling interests	155,662	88,000
Distributions paid to noncontrolling interests and redeemable noncontrolling interests	(13,717)	(20,908)
Proceeds from exercises of stock options	2,387	1,116
Payment of capital lease obligation	(1,472)	(502)
Payments for deferred offering costs	(4,722)	—

Change in restricted cash	(4,608)	84
Net cash provided by financing activities	286,127	312,981
Net increase (decrease) in cash and cash equivalents	(35,544)	104,203
Cash and cash equivalents, beginning of period	152,154	99,699
Cash and cash equivalents, end of period	$116,610	$203,902
Supplemental disclosures of cash flow information		
Cash paid for interest	$3,118	$6,460
Supplemental disclosures of noncash investing and financing activities		
Costs of solar energy systems included in accounts payable	$4,777	$191
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	$6,463	$5,281
Vehicles acquired under capital leases	$5,255	$1,051
Noncash purchase consideration on acquisition of business	$18,718	$76,964

SUNRUN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Sunrun Inc. ("Sunrun" or the "Company") was originally formed in 2007 as a California limited liability company, and was converted into a Delaware corporation in 2008. The Company is engaged in the design, development, installation sale, ownership, and maintenance of residential solar energy systems ("Projects") in the United States.

Sunrun acquires customers directly and through relationships with various solar and strategic partners ("Partners"). The Projects are constructed either by Sunrun or by Sunrun's Partners and are owned by the Company. Sunrun's customers enter into a power purchase agreement ("PPA") or a lease (each, a "Customer Agreement") which typically has a term of 20 years. Sunrun monitors, maintains and insures the Projects. As a result of the acquisition of Mainstream Energy Corporation, its fulfillment business AEE Solar and its racking business SnapNrack (collectively, "MEC") completed in February 2014, the Company also sells solar energy systems and products to customers.

The Company has formed various subsidiaries ("Funds") to finance the development of Projects. These Funds, structured as limited liability companies, obtain financing from outside investors and purchase or lease Projects from Sunrun under master purchase or master lease agreements. The Company currently utilizes three legal structures in its investment Funds, which are referred to as: (i) lease pass-throughs, (ii) partnership-flips and (iii) joint venture ("JV") inverted leases.

The Company completed its initial public offering in August 2015 and its common stock is listed on the NASDAQ under the symbol "RUN".

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting and, in the opinion of management, include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations, and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. As such, these unaudited consolidated financial statements should be read in conjunction with the Company's audited financial statements included in the prospectus dated August 4, 2015 filed with the SEC pursuant to Rule 424 promulgated under the Securities Act of 1933, as amended. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results expected for the year ending December 31, 2015 or for any other interim periods or any other period.

The consolidated financial statements reflect the accounts and operations of the Company and those of its subsidiaries, including Funds, in which the Company has a controlling financial interest. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as variable interest entities (“VIEs”), through arrangements that do not involve controlling financial interests. In accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 810 (“ASC 810”) Consolidation, the Company consolidates any VIE of which it is the primary beneficiary. The primary beneficiary, as defined in ASC 810, is the party that has (1) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb the 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 evaluates its relationships with its VIEs on an ongoing basis to determine whether it continues to be the primary beneficiary. The consolidated financial statements reflect the assets and liabilities of VIEs that are consolidated. All intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

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

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company regularly makes significant estimates and assumptions, including, but not limited to, the estimates that affect the collectability of accounts receivable, the valuation of inventories, the useful lives and estimated residual values of solar energy systems, the useful lives of property and equipment, the valuation and useful lives of intangible assets, the fair value of assets acquired and liabilities assumed in business combinations, the effective interest rate used to amortize lease pass-through financing obligations, the valuation of stock-based compensation, the valuation of the Company's common stock, the determination of valuation allowances associated with deferred tax assets, fair value of debt instruments disclosed and the redemption value of redeemable noncontrolling interests. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable. Actual results may differ from such estimates.

Segment Information

The Company has one operating segment with one business activity, providing solar energy services and products to customers. The Company's chief operating decision maker ("CODM") is its Chief Executive Officer, who manages operations on a consolidated basis for purposes of allocating resources. When evaluating performance and allocating resources, the CODM reviews financial information presented on a consolidated basis.

Revenues from external customers for each group of similar products and services are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Operating leases	$22,915	$16,788	$40,047	$29,417
Incentives	11,543	6,199	16,719	12,011
Operating leases and incentives	34,458	22,987	56,766	41,428
Solar energy systems	7,028	5,741	12,834	8,093
Products	31,204	23,211	52,767	32,821
Solar energy systems and product sales	38,232	28,952	65,601	40,914
Total revenue	$72,690	$51,939	$122,367	$82,342

Fair Value of Financial Instruments

The Company defines fair value as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. FASB establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

- Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities 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 related assets or

liabilities; and

- Level 3—Inputs that are unobservable, significant to the measurement of the fair value of the assets or liabilities and are supported by little or no market data.

The Company's financial instruments include cash and cash equivalents, receivables, accounts payable, accrued expenses, distributions payable to noncontrolling interests, derivatives, borrowings on the line of credit, and long term debt.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 Revenue from Contracts with Customers (Topic 606), to replace the existing revenue recognition criteria for contracts with customers and to establish the disclosure requirements for revenue from contracts with customers. The core principle of this standard is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This ASU is effective for the Company for annual reporting periods beginning after December 15, 2017 including the interim reporting periods within that fiscal year, and early adoption is permitted. 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 this guidance on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16 Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity. This guidance requires issuers and investors to consider all of a hybrid instrument's stated and implied substantive terms and features, including any embedded derivative features being evaluated for bifurcation. The guidance eliminates the "chameleon approach", under which all embedded features except the feature being analyzed are considered. The guidance is effective for the year beginning after December 15, 2015 and for interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company believes the adoption of this guidance will have no impact on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and provide certain disclosures when there is substantial doubt about the entity's ability to continue as a going concern. This guidance applies to all entities and is effective for annual periods beginning after December 15, 2015, and interim periods thereafter, with early adoption permitted. The Company believes the adoption of this guidance will have no impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis, which provides consolidation guidance and changes the way reporting enterprises evaluate consolidation for limited partnerships, investment companies and similar entities, as well as variable interest entities. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2015. The Company is currently evaluating this guidance and the impact it may have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, to simplify the presentation of debt issuance costs. Prior to ASU 2015-03, issuance costs were presented as an asset on the balance sheet. Under ASU 2015-03, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company is currently evaluating this guidance and the impact it may have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, to specify that inventory should be subsequently measured at the lower of cost or net realizable value, which is the ordinary selling price less any completion, transportation and disposal costs. However, the ASU does not apply to inventory measured using the last-in-first-out or retail methods. The ASU is effective for interim and annual periods beginning after December 15, 2016. Adoption of the ASU is prospective. The Company is currently evaluating this guidance and the impact it may have on its consolidated financial statements.

3. Acquisitions

Clean Energy Experts, LLC

In April 2015, the Company acquired Clean Energy Experts, LLC (“CEE”), a consumer demand and solar lead generation company, for $25.0 million in cash and 1.9 million shares of common stock. Of this amount, $15.0 million in cash was paid and 1.4 million shares were issued in April 2015. The remaining $10.0 million in cash and 500,000 shares are due in two equal installments: $5.0 million will be paid and 250,000 shares will be issued in October 2015 and again in April 2016. The fair value of assets acquired and liabilities assumed was based upon a preliminary valuation and our

estimates and assumptions are subject to change within the measurement period. The primary area of the purchase price that is contingent upon future events relate to indemnification for potential tax liability.

An additional $9.1 million in cash and 600,000 shares of common stock may be issued on April 1, 2017, subject to the achievement of certain sales targets as well as continued employment of certain key employees acquired in the transaction, which will be recorded as compensation expense over a two-year period unless and until the Company assesses the sales targets are not considered probable of achievement. The acquisition is expected to enhance the Company's efficient and consistent access to high-quality leads in existing and new markets.

The Company has included the results of operations of the acquired business in the consolidated statements of operations from the acquisition date. The assets acquired and liabilities assumed in the CEE acquisition have been recorded based on their fair value at the acquisition date. Goodwill represents the excess of the purchase price over the net tangible and intangible assets acquired and is not deductible for tax purposes. Goodwill recorded is primarily attributable to the acquired assembled workforce and the synergies expected to arise after the CEE acquisition. Transaction costs related to the acquisition were expensed as incurred.

The following table summarizes the fair value of assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	$	424
Accounts receivable		639
Intangible assets		13,290
Accounts payable and accrued liabilities		(1,247)
Deferred tax liability		(5,158)
Indentifiable assets and liabilities assumed		7,948
Goodwill		35,769
Total	$	43,717

The fair value of acquired intangible assets and their estimated useful life are as follows (in thousands, except estimated useful life):

	Fair Value	Estimated Useful Life
Developed technology	$5,910	5
Customer relationships	4,390	8
Trade names	2,990	8
Total	$13,290	

For the three and six months ended June 30, 2015, the contribution of the acquired business to the Company's total revenues was $4.1 million as measured from the date of the acquisition. The portion of total expenses and net income associated with the acquired business was not separately identifiable due to the integration with the Company's operations.

4. Fair Value Measurements

At June 30, 2015 and December 31, 2014, the carrying value of receivables, accounts payable, accrued expenses, and distributions payable to noncontrolling interests approximates fair value due to their short-term nature. The carrying values and fair values of debt instruments are as follows (in thousands):

	June 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Line of credit	$ 140,024	$ 140,024	$ 48,597	$ 48,597
Non-bank term loans	—	—	3,138	3,853
Bank term loan	32,219	34,248	33,382	35,653
Note payable	31,346	30,827	29,563	28,900
Syndicated term loans	134,133	134,133	124,571	124,571
Total	$ 337,722	$ 339,231	$ 239,251	$ 241,574

At June 30, 2015 and December 31, 2014, the fair value of the Company’s lines of credit and the syndicated term loans approximates their carrying values because their interest rates are variable rates that approximate rates currently available to the Company. At June 30, 2015, the fair value of the Company’s bank term loan and note payable are based on rates currently offered for debt with similar maturities and terms. At December 31, 2014, the fair value of the Company’s non-bank term loan, bank term loan, and note payable are based on rates currently offered for debt with similar maturities and terms. The Company’s fair value of the debt instruments fell under the Level 3 hierarchy. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market.

The Company determines the fair value of its derivative instruments using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the interest rate swap counterparty and an evaluation of the Company’s credit risk in valuing derivative instruments. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility. At June 30, 2015 and December 31, 2014, financial instruments measured at fair value on a recurring basis, based upon the fair value hierarchy are as follows (in thousands):

	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	$—	$2,329	$ —	$2,329	$—	$ —	$ —	$ —

5. Inventories

Inventories consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	$35,336	$ 21,531
Work-in-process	2,468	2,383
Total	$37,804	$ 23,914

6. Solar Energy Systems, net

Solar energy systems, net consists of the following (in thousands):

	June 30, 2015	December 31, 2014

Solar energy system equipment costs	$1,610,120	$ 1,406,478
Inverters	148,714	123,910
Initial direct costs	48,809	36,279
Total solar energy systems	1,807,643	1,566,667
Less: accumulated depreciation and amortization	(176,161)	(143,028)
Add: construction-in-progress	64,246	56,584
Total solar energy systems, net	$1,695,728	$ 1,480,223

All solar energy systems, construction-in-progress, and inverters have been leased to or are subject to a signed Customer Agreement with customers. The Company recorded depreciation expense related to solar energy systems of $16.5 million and $32.0 million for the three and six months ended June 30, 2015, respectively, and $12.9 million and $24.9 million for the three and six months ended June 30, 2014, respectively. The depreciation expense was reduced by the amortization of deferred grants of $3.5 million and $7.1 million for the three and six months ended June 30, 2015, respectively, and $3.5 million and $6.9 million for the three and six months ended June 30, 2014, respectively.

7. Goodwill and Intangible Assets, net

The change in the carrying value of goodwill is as follows (in thousands):

Balance—December 31, 2014	$51,786
Acquisition of CEE (Note 3)	35,769
Balance—June 30, 2015	$87,555

Intangible assets, net as of June 30, 2015 consist of the following (in thousands):

	Cost	Accumulated amortization	Carrying value	Weighted average remaining life (in years)
Backlog	$200	$ (200)	$—	—
Customer relationships	14,660	(1,768)	12,892	7.8
Developed technology	6,820	(553)	6,267	4.6
Trade names	6,990	(1,341)	5,649	5.7
Total	$28,670	$ (3,862)	$24,808	

Intangible assets, net as of December 31, 2014 consist of the following (in thousands):

	Cost	Accumulated amortization	Carrying value	Weighted average remaining life (in years)
Backlog	$200	$ (183)	$17	0.1
Customer relationships	10,270	(1,055)	9,215	8.4
Developed technology	910	(167)	743	4.1
Trade names	4,000	(864)	3,136	4.1
Total	$15,380	$ (2,269)	$13,111	

The Company recorded amortization of intangible assets expense of $1.1 million and $1.6 million for the three and six months ended June 30, 2015, respectively, and $0.7 million and $1.1 million for the three and six months ended June 30, 2014, respectively.

8. Debt

As of June 30, 2015, debt consisted of the following (in thousands):

	Carrying Values, net of debt discount			Unused Borrowing Capacity	Annual Contractual Interest Rate	Interest Rate		Maturity Date
	Current	Long Term	Total					
Recourse debt:								
Bank line of credit	$—	$ 140,024	$ 140,024	$ 44,630	LIBOR + 3.25%	3.69	%	April 2018
Total recourse debt	$—	$ 140,024	$ 140,024	$ 44,630				
Non-recourse debt:								
Syndicated term loans	738	133,395	134,133	23,000	LIBOR + 2.75% - Term A	3.03	%	December 2021
					LIBOR + 5.00% - Term B	6.00	%	December 2021
Bank term loans	1,086	31,133	32,219	—	6.25%	6.25	%	April 2022
Note payable	—	31,346	31,346	—	12.00%	12.00	%	December 2018
Total non-recourse debt	1,824	195,874	197,698	18,000				
Total debt	$ 1,824	$ 335,898	$ 337,722	$ 62,630				

As of December 31, 2014, debt consisted of the following (in thousands):

	Carrying Values, net of debt discount			Unused Borrowing Capacity	Annual Contractual Interest Rate	Interest Rate		Maturity Date
	Current	Long Term	Total					
Recourse debt:								
Bank line of credit	$—	$ 48,597	$ 48,597	$ —	Prime rate + 1.00%	4.25	%	December 2016
Total recourse debt	$—	$ 48,597	$ 48,597	$ —				
Non-recourse debt:								
Non-bank term loans	207	2,931	3,138	—	9.08%	9.08	%	December 2024
Syndicated term loans	958	123,613	124,571	5,000	LIBOR + 2.75% - Term A	3.01	%	December 2021
					LIBOR + 5.00% - Term B	6.00	%	December 2021
Bank term loans	1,437	31,945	33,382	—	6.25%	6.25	%	April 2022
Note payable	—	29,563	29,563	—	12.00%	12.00	%	December 2018
Total non-recourse debt	2,602	188,052	190,654	5,000				
Total debt	$ 2,602	$ 236,649	$ 239,251	$ 5,000				

Bank Line of Credit

In December 2014, the Company entered into credit facility agreements with a syndicate of banks to borrow amounts that were used to pay off an existing line of credit, and obtain funding for working capital and general corporate purposes. The credit facility agreements had a $50.0 million committed facility which included a $1.0 million letter of credit sub-facility. On April 1, 2015, the Company paid off the unpaid balance of $49.7 million under the credit facility agreements, which included accrued interest and other fees, and terminated the facility.

In April 2015, the Company entered into a new syndicated working capital facility with banks for a total commitment of up to $205.0 million, of which $187.0 million was available to be drawn at the closing date. The Company drew down $80.0 million at the closing date and used $49.7 million of the debt proceeds to fully repay the December 2014 credit facility plus accrued interest and other fees and the remaining amount was available for general corporate purposes. The

working capital facility is secured by substantially all of the unencumbered assets of the Company as well as ownership interests in certain subsidiaries of the Company.

Under the terms of the new working capital facility, the Company is required to meet various restrictive covenants, including meeting certain reporting requirements, such as the completion and presentation of audited consolidated financial statements. The Company is also required to maintain minimum unencumbered liquidity of at least $25.0 million in the aggregate as of the last day of each calendar month. The Company is further required to maintain a modified interest coverage ratio of 2.00:1.00 or greater, measured quarterly as of the last day of each quarter. The Company was in compliance with all debt covenants as of June 30, 2015.

Non-Bank Term Loans

In 2013, a subsidiary of the Company entered into an agreement with a non-bank lender for a term loan with an aggregate amount of up to $119.5 million. The proceeds of this term loan were principally used to finance the design, procurement, and installation of solar systems. The loan is collateralized by the assets and related cash flows of the borrower subsidiary and is non-recourse to our other assets.

In April 2015, the Company paid $3.5 million to repay the remaining outstanding balance of the non-bank term loan and incurred a loss on extinguishment charge of $0.4 million, which is recorded in non-operating loss from ordinary operations on our statement of operations.

Syndicated Credit Facilities

In December 2014, subsidiaries of the Company entered into secured credit facilities agreements with a syndicate of banks for up to $195.4 million in committed facilities. These facilities include a $158.5 million senior term loan (“Term Loan A”) and a $24.0 million subordinated term loan (“Term Loan B”). In addition, the credit facilities also include a $5.0 million working capital revolver commitment and a $7.9 million senior secured revolving letter of credit facility which draws are solely for the purpose of satisfying the required debt service reserve amount if necessary. Term Loan A, the working capital revolver and the letter of credit bear interest at a rate of LIBOR + 2.75% with a 25 basis point step up triggered on the fourth anniversary. Term Loan B bears interest at rate of LIBOR + 5.00% with a LIBOR floor of not less than 1.00%. Prepayments are permitted under Term Loan A at par without premium or penalty, and under Term Loan B prepayment penalties range from 0%-2%, depending on the timing of the prepayment. The principal and accrued interest on any outstanding loans mature on December 31, 2021. The proceeds of these facilities were used to pay off certain non-bank term loans of $94.4 million and to fund general corporate needs.

At inception of the credit facilities, one of the Company’s subsidiaries is the borrower under the Term Loan A agreement and another of the Company’s subsidiaries is the borrower under the Term Loan B agreement. All obligations under the Term Loan A, working capital revolver and letter of credit are collateralized by the subsidiary borrower’s membership interests and assets in the Company’s investment Funds. All obligations under the Term Loan B are collateralized by the membership interest in the subsidiary borrower. The credit facilities also contain certain provisions in the event of default, which entitle lenders to take actions, including acceleration of amounts due under the credit facilities and acquisition of membership interests and assets that are pledged to the lenders under the terms of the credit facilities.

The Company is required to maintain certain financial measurements and reporting covenants under the terms of the credit facilities. At June 30, 2015, the Company was in compliance with the credit facility covenants.

Bank Term Loan

In December 2013, a subsidiary of the Company entered into an agreement with a bank for a term loan of $38.0 million. The proceeds of this term loan were distributed to the members of this subsidiary, including the Company.

The loan is secured by the assets and related cash flow of this subsidiary and is nonrecourse to the Company's other assets. The Company was in compliance with all debt covenants as of June 30, 2015.

Notes Payable

In December 2013, a subsidiary of the Company entered into a Note Purchase Agreement with an investor for the issuance of senior notes in exchange for proceeds of $27.2 million. The loan proceeds were distributed to the Company for general corporate purposes. On the last business day of each quarter, commencing with March 31, 2014, to the extent the Company's subsidiary has insufficient funds to pay the full amount of the stated interest of the outstanding loan balance, a PIK interest rate of 12% is accrued and added to the outstanding balance. As of June 30, 2015 and December

31, 2014, the portion of the outstanding loan balance that related to PIK interest was $4.6 million and $2.9 million, respectively. The senior notes are secured by the assets and related cash flows of certain of the Company's subsidiaries and are nonrecourse to the Company's other assets. The entire outstanding principal balance is payable in full on the maturity date. The Company was in compliance with all debt covenants as of June 30, 2015.

9. Derivatives

Starting in 2015, the Company uses interest rate swaps to hedge variable interest payments due on its syndicated term loans. These swaps allow the Company to pay at fixed interest rates and receive payments based on variable interest rates with the swap counterparty based on the three month LIBOR on the notional amounts over the life of the swaps. The Company did not use interest rate swaps prior to 2015.

In January 2015, the Company purchased interest rate swaps with a notional amount aggregating $109.1 million. The interest rate swap contracts were executed with four counterparties who were part of the lender group on the Company's syndicated term loans. As of June 30, 2015 the unrealized fair market value gain (loss) on the interest rate swaps were $2.3 million as included in other assets in the consolidated balance sheet.

The interest rate swaps have been designated as cash flow hedges. In the six months ended June 30, 2015, the hedge relationships on the Company's interest rate swaps have been assessed as highly effective as the critical terms of the interest rate swaps match the critical terms of the underlying forecasted hedged transactions. Accordingly, changes in the fair value of these derivatives are recorded as a component of accumulated other comprehensive income, net of a provision for income taxes. Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged forecasted transactions affects earnings. For the three and six months ended June 30, 2015, the Company recorded an unrealized gain of $2.9 million and $1.1 million, respectively, net of the applicable tax expense of $0.9 million and $0.9 million, respectively. There were no undesignated derivative instruments recorded by the Company as of June 30, 2015. At June 30, 2015, the Company had the following designated derivative instruments classified as derivative assets (in thousands, other than quantity and interest rates):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Notional Amount	Fair Market Value	Credit Risk Adjustment	Adjusted Fair Market Value	Deferred Tax Expense	Gain recognized in Accumulated Comprehensive Income	Gain Recognized into Earnings
Interest rate swaps	4	10/31/2028	2.17%-2.18%	$109,143	$3,040	$ (711)	$2,329	$ 904	$ 1,425	$ 356

10. Lease Pass-Through Financing Obligations

The Company has entered into four transactions referred to as "lease pass-through arrangements." Under lease pass-through arrangements, the Company leases solar energy systems to Fund investors under a master lease agreement, and these investors in turn are assigned the leases with customers. The Company receives all of the value attributable to the accelerated tax depreciation and some or all of the value attributable to the other incentives. The

Company assigns to the Fund investors the value attributable to the ITC, the right to receive U.S. Treasury grants, and, for the duration of the master lease term, the long-term recurring customer payments. Given the assignment of the operating cash flows, these arrangements are accounted for as financing obligations. In addition, in the fourth lease pass-through structure, the Company sold, as well as leased, solar energy systems to a Fund investor under a master purchase agreement. As the substantial risks and rewards in the underlying solar energy systems were retained by the Company, this arrangement was also accounted for as a financing obligation.

Under these lease pass-through arrangements, wholly owned subsidiaries of the Company finance the cost of solar energy systems with investors for an initial term of 20 – 25 years. The solar energy systems are subject to Customer Agreements with an initial term not exceeding 20 years. These solar energy systems are reported under the line item solar energy systems, net in the consolidated balance sheets. As of June 30, 2015 and December 31, 2014, the cost of the solar energy systems placed in service under the lease pass-through arrangements was $394.8 million and $322.2 million, respectively. The accumulated depreciation related to these assets as of June 30, 2015 and December 31, 2014 was $26.1million and $19.3 million, respectively.

11. VIE Arrangements

The Company consolidated various VIEs at June 30, 2015 and December 31, 2014. The carrying amounts and classification of the VIEs' assets and liabilities included in the consolidated balance sheets are as follows (in thousands):

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$72,983	$ 29,099
Restricted cash	311	228
Accounts receivable, net	15,609	14,351
Prepaid expenses and other current assets	199	180
Total current assets	89,102	43,858
Restricted cash	418	365
Solar energy systems, net	1,113,088	942,655
Total Assets	$1,202,608	$ 986,878
Liabilities		
Current liabilities		
Accounts payable	$16,765	$ 9,057
Distribution payable to noncontrolling interests and redeemable noncontrolling interests	6,413	6,426
Accrued expenses and other liabilities	162	340
Deferred revenue, current portion	18,962	16,991
Deferred grants, current portion	7,224	7,225
Long-term debt, current portion	1,086	1,437
Total current liabilities	50,612	41,476
Deferred revenue, net of current portion	310,152	284,801
Deferred grant income, net of current portion	112,480	116,126
Long-term debt, net of current portion	31,133	$ 31,945
Total liabilities	$504,377	$ 474,348

The Company holds a variable interest in an entity that provides the noncontrolling interest with a right to terminate the leasehold interests in all of the leased projects on the tenth anniversary of the effective date of the master lease. In this circumstance, the Company would be required to pay the noncontrolling interest an amount equal to the fair market value, as defined in the governing agreement of all leased projects as of that date.

The Company holds certain variable interests in nonconsolidated VIEs established as a result of four lease pass-through Fund arrangements. The Company does not have material exposure to losses as a result of its involvement with the VIEs in excess of the amount of the financing liability recorded in the Company's consolidated financial statements. The Company is not considered the primary beneficiary of the VIEs.

12. Redeemable Noncontrolling Interests and Equity

The changes in total stockholder's equity, redeemable noncontrolling interest, and noncontrolling interest were as follows (in thousands):

	Redeemable Noncontrolling Interests	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance - January 1, 2015	$ 135,948	$ 324,864	$ 91,755	$416,619
Exercise of stock options	—	2,387	—	2,387
Stock based compensation	—	6,495	—	6,495
Contributions from noncontrolling interests and redeemable noncontrolling interests	50,923	—	104,739	104,739
Distributions to noncontrolling interests and redeemable noncontrolling interests	(6,827)	—	(6,589)	(6,589)
Issuance of shares due to business acquisition	—	19,148	—	19,148
Net loss	(28,756)	(10,455)	(63,174)	(73,629)
Unrealized gain on derivatives	—	1,425	—	1,425
Balance - June 30, 2015	$ 151,288	$ 343,864	$ 126,731	$470,595

The carrying value of redeemable noncontrolling interests as June 30, 2015 and December 31, 2014 was greater than the redemption value, except for two funds at June 30, 2015 and two funds at December 31, 2014 where the carrying value has been adjusted to the redemption value.

13. Stock-Based Compensation

The following table summarizes the activity for all stock options under all of the Company's equity incentive plans for the six months ended June 30, 2015 (shares in thousands):

	Options Outstanding	Weighted Average Exercise Price Outstanding	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2014	11,408	$ 4.42	$ 8.2
Granted	2,863	9.17	
Exercised	(854)	2.79	
Cancelled / forfeited	(783)	5.00	
Outstanding at June 30, 2015	12,634	$ 5.57	$ 7.1

Options vested and exercisable at				
June 30, 2015	5,414	3.63	$	6.2
Options vested and expected to vest at				
June 30, 2015	10,480	5.31	$	8.1

There were 845,410 and 469,000 unvested exercisable shares as of June 30, 2015 and December 31, 2014, respectively, which are subject to a repurchase option held by the Company at the original exercise price. These exercisable but unvested shares have a vesting period of three years. There was no exercise of unvested options in the six months ended June 30, 2015 and 2014.

The weighted-average grant-date fair value of stock options granted during the six months ended June 30, 2015 and 2014 were $4.78 and $2.68 per share, respectively. The total intrinsic value of the options exercised during the six months ended June 30, 2015 and 2014 was $5.2 million and $2.3 million, respectively. The intrinsic value is the difference of the current fair value of the stock and the exercise price of the stock option. The total fair value of options vested during the six months ended June 30, 2015 and 2014 was $5.5 million and $1.9 million, respectively.

The Company estimates the fair value of stock-based awards on their grant date using the Black-Scholes option-pricing model. The Company estimates the fair value using a single-option approach and amortizes the fair value on a straight-line basis for options expected to vest. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods.

The Company estimated the fair value of stock options with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Risk-free interest rate	1.55%-1.95%	1.77%-1.88%	1.55%-1.95%	1.68%-1.90%
Volatility	36.54%-39.63%	46.25%-46.30%	36.54%-39.63%	43.77%-46.68%
Expected term (in years)	5.87-6.23	5.92-6.08	5.87-6.23	5.34-6.08
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

The expected term assumptions were determined based on the average vesting terms and contractual lives of the options. The risk-free interest rate is based on the rate for a U.S. Treasury zero-coupon issue with a term that approximates the expected life of the option grant. For stock options granted in the six months ended June 30, 2015 and 2014 the Company considered the volatility data of a group of publicly traded peer companies in its industry. Forfeiture rates are estimated using the Company’s expectations of forfeiture rates for the Company’s employees and are adjusted when estimates change. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company’s current estimates, such amounts will be recorded as a cumulative adjustment in the period the estimates are revised. The Company considers many factors when estimating expected forfeitures, including historical forfeiture pattern, the types of awards and employee class. Actual results, and future changes in estimates, may differ substantially from management’s current estimates.

In 2014, the Company granted a total of 947,342 shares of RSUs that are subject to certain performance targets to a third party partner. The RSUs will vest upon the third party originating certain thresholds of expected megawatts in new systems for the period starting August 2014 and ending August 2017. In addition, these RSUs only vest upon the earlier of an initial public offering by the Company or January 1, 2017 and are subject to a clawback provision that requires the holder of the RSUs to either forfeit all the RSUs or pay the Company the grant date fair value for all RSUs that are not forfeited if the third party breaches the exclusivity provision of the parties’ commercial agreement. Additionally, 372,342 of these RSUs are also subject to an additional performance-based clawback provision that is based on the third party originating certain additional thresholds of expected megawatts in new systems from April 2014 through September 2017. Both the exclusivity and performance-based clawback provisions expire in 2017.

Both the performance-based and the clawback provisions are considered substantive and represent additional vesting conditions. As a result, the Company will start recognizing expense when the performance targets are met and the award value will be remeasured until the award vests. The Company recognized no compensation expense in the three months or six months ended June 30, 2015 as the performance targets were not met.

The following table summarizes the activity for all RSUs under all the Company’s equity inventive plans for the six months ended June 30, 2015 (shares in thousands):

	Weighted Average Grant

	Shares	Date Fair Value
Unvested balance at December 31, 2014	947	$ 9.40
Granted	170	10.81
Vested	—	—
Cancelled / forfeited	—	—
Unvested balance at June 30, 2015	1,117	$ 9.61

In the three and six months ended June 30, 2015, the Company recognized $0.2 million and $1.5 million in compensation expense, respectively, resulting from sales of 145,000 and 1,005,928 shares, respectively, by employees and former employees to existing investors for amounts in excess of the deemed fair value.

The Company recognized stock-based compensation expense, including the compensation expense resulting from the sales of common stock by employees and former employees to existing investors, in the consolidated statements of operations as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of operating leases and incentives	$248	$61	$297	$112
Cost of solar energy systems and product sales	35	37	112	67
Sales and marketing	1,209	288	1,636	496
Research and development	64	95	126	139
General and administration	1,645	1,982	4,250	3,496
Total	$3,201	$2,463	$6,421	$4,310

As of June 30, 2015 and December 31, 2014, total unrecognized compensation cost related to outstanding stock options was $18.3 million and $12.1 million respectively, which is expected to be recognized over a weighted-average period of 3.1 years and 2.8 years, respectively.

14. Income Taxes

The income tax benefit for the three months ended June 30, 2015 and 2014 was 11.1% and 15.3%, respectively. The income tax benefit for the six months ended June 30, 2015 and 2014 was 5.7% and 14.9%, respectively. The differences between the actual consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to the allocation of losses on noncontrolling interest and redeemable noncontrolling interests, the prepaid income taxes due to inter-company transactions and other miscellaneous items.

The Company sells solar energy systems to investment funds. As the investment funds are consolidated by the Company, the gain on the sale of the assets has been eliminated in the consolidated financial statements. These transactions are treated as intercompany sales and any 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 asset. As of June 30, 2015 and December 31, 2014, the Company recorded long–term prepaid tax assets of $142.8 million and $109.4 million, net of amortization.

Uncertain Tax Positions

As of June 30, 2015, the Company had $1.5 million of unrecognized tax benefits related to the acquisition of CEE. In addition, there was $0.1 million and $0.2 million of interest and penalties for uncertain tax positions as of June 30, 2015. As of December 31, 2014, there was no unrecognized tax benefits and there were no interest and penalties accrued for any uncertain tax position. The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized benefits will increase or decrease within the next 12 months. The Company is subject to taxation and files income tax returns in the United States, and various state and local jurisdictions. Due to the Company’s net losses, substantially all of its federal, state and local income tax returns since inception are still subject to audit.

15. Commitments and Contingencies

Letters of Credit

As of June 30, 2015 and December 31, 2014, the Company had $5.8 million of unused letters of credit outstanding, which carry fees ranging from 2.00% - 2.75% per annum.

Non-cancellable Operating Leases

The Company leases facilities and equipment under non-cancellable operating leases. Total operating lease expenses were $1.5 million and $2.6 million for the three and six months ended June 30, 2015, respectively, and $0.8 million and $1.5 million for the three and six months ended June 30, 2014, respectively.

Certain operating leases contain rent escalation clauses, which are recorded on a straight-line basis over the initial term of the lease with the difference between the rent paid and the straight-line rent recorded as a deferred rent liability. Lease incentives received from landlords are recorded as deferred rent liabilities and are amortized on a straight-line basis over the lease term as a reduction to rent expense. Deferred rent liabilities were $1.7 million and $2.0 million as of June 30, 2015 and December 31, 2014, respectively.

Capital Lease Obligations

As of June 30, 2015 and December 31, 2014, capital lease obligations were $11.1 million and $7.4 million, respectively. The capital lease obligations bear interest at rates up to 10% per annum.

Purchase Commitments

In January 2015, the Company entered into a purchase commitment with one of our suppliers to purchase $70 million of photovoltaic modules over the next 12 months with the first modules delivered in January 2015.

In June 2015, the Company entered into a purchase commitment with one of their suppliers to purchase $32 million of solar energy system modules through December 2016.

In June 2015, the Company entered into a purchase commitment to purchase inverters to be delivered between July 2015 and March 2016 for a total of $14 million - $20 million.

Guarantees

The Company guarantees one of its investors in one of its Funds an internal rate of return, calculated on an after-tax basis, in the event that it purchases the investor's interest or the investor sells its interest to the Company. The Company does not expect the internal rate of return to fall below the guaranteed amount; however, due to uncertainties associated with estimating the timing and amount of distributions to the investor and the possibility for 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.

ITC Indemnification

The Company is contractually committed to compensate certain investors for any losses that they may suffer in certain limited circumstances resulting from reductions in ITCs. Generally, such obligations would arise as a result of reductions to the value of the underlying solar energy systems as assessed by the IRS. At 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 audits undertaken by the IRS. The Company believes that any payments to the investors in excess of the amount already recognized by the Company for this obligation are not probable based on the facts known at the reporting date. The maximum potential future payments that the Company could have to make under this obligation would depend on the difference between the fair values of the solar energy systems sold or transferred to the Funds as determined by the Company and the values the IRS would determine as the fair value for the systems for purposes of claiming ITCs. ITCs are claimed based on the statutory regulations from the IRS. The Company uses fair values determined with the assistance of an independent third-party appraisal as the basis for determining the ITCs that are passed-through to and claimed by the Fund investors. Since the Company cannot determine how the IRS will evaluate system values used in claiming ITCs, 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.

Litigation

The Company is subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of its business. The Company records a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Depending on the nature and timing of any such proceedings that may arise, an unfavorable resolution of a matter could materially affect the Company's future consolidated results of operations, cash flows, or financial position in a particular period.

In July 2012, the Department of Treasury and the Department of Justice (together, the "Government") opened a civil investigation into the participation by residential solar developers in the Section 1603 grant program. The Government served subpoenas on several developers, including Sunrun, along with their investors and valuation firms. The Company believes that it is not probable that a loss will be incurred in connection with this investigation and is not able to estimate the ultimate outcome or a range of possible loss at this point.

On January 4, 2013, a consumer rights class action law firm filed a class action complaint against Sunrun in Los Angeles Superior Court. The complaint asserts the claims of one named plaintiff and all others similarly situated, and alleges claims under the California state contractor licensing statute, the California unfair competition statute and the California Consumer Legal Remedies Act. The Company believes that it is not probable that a loss will be incurred in connection with this action and is not able to estimate the ultimate outcome or a range of possible loss at this point. The Company believes that it has meritorious defenses against this action and will continue to vigorously defend it.

On March 11, 2015, an employee rights class action law firm filed a class action complaint against two of the Company's subsidiaries in San Diego Superior Court. The complaint asserts the claim of one named plaintiff and others similarly situated under the California wage and hour laws, specifically, that the Company's subsidiaries: (i) miscalculated and underpaid overtime wages by failing to include certain bonuses in base pay; (ii) failed to provide meal periods; and (iii) required employees to work off the clock without paying them. On April 27, 2015, the employee rights class action law firm filed an amended class action complaint against two of the Company's subsidiaries in San Diego Superior Court. The Company is currently reviewing the allegations and the amount of any potential liability is not currently estimable.

16. Net Loss Per Share

The Company calculates net income (loss) per share (EPS) available to common stockholders using the two-class method. The two-class method allocates net income that otherwise would have been available to common shareholders to holders of participating securities. The Company considers all series of our convertible preferred stock to be participating securities due to their non-cumulative dividend rights. As such, net income allocated to these participating securities, which include participating rights in undistributed net income, is first subtracted from net income attributable to common stockholders to determine the amount available to the common stockholders. For the three months ended June 30, 2015, all of the net income attributable to common shareholders was allocated to participating securities because net income was less than the preference dividends to which they were entitled. The participating securities holders do not participate in the Company's net loss.

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities are excluded from the computation of dilutive EPS in periods in which the effect would be antidilutive.

The computation of the Company's basic and diluted net loss per share are as follows (in thousands, except share and per share amounts):

	For the Three Months	For the Six Months

	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss) attributable to common stockholders	$7,540	$(17,231)	$(10,455)	$(28,952)
Less: Net income allocated to participating securities	(7,540)	—	—	—
Net income (loss) available to common stockholders	—	(17,231)	(10,455)	(28,952)
Denominator:				
Weighted average shares used to compute net loss per share available to common stockholders, basic and diluted	26,215	23,827	25,322	21,437
Basic and diluted	$—	$(0.72)	$(0.41)	$(1.35)

The following shares were excluded from the computation of diluted net loss per share as the impact of including those shares would be anti-dilutive:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Preferred stock	54,841	54,841	54,841	54,841
Outstanding stock options	12,908	10,757	11,837	9,297
Total	67,749	65,598	66,678	64,138

17. Related Party Transactions

An individual who served as one of the Company's directors until March 2015 and his spouse have a direct material ownership interest in REC Solar Commercial Corporation (RECC). For the three and six months ended June 30, 2015, the Company recorded $0.1 million and $0.3 million, respectively, in solar energy systems and products sales revenue from sales to RECC and had outstanding receivables of $0.0 million and $0.1 million as of June 30, 2015 and December 31, 2014, respectively. For the three and six months ended June 30, 2014, the Company recorded $2.4 million and $3.8 million, respectively, in solar energy systems and product sales revenue from sales to RECC.

18. Subsequent Events

Financing Arrangements

In July 2015, the Company entered into a securitization transaction pursuant to which the Company pooled and transferred qualifying solar energy systems and related lease agreements secured by associated customer contracts ("Solar Assets") into a special purpose entity ("Issuer"). The Issuer, a wholly-owned indirect subsidiary of Sunrun, issued an aggregate principal amount of $111.0 million of asset-backed notes ("Notes") secured by and payable solely from the cash flows generated by the Solar Assets. The Notes represent obligations of the Issuer and are not insured or guaranteed by Sunrun or any of its affiliates. The Notes consist of Class A Notes in an aggregate principal amount of $100.0 million, that bear interest at a rate of 4.40% per annum, and Class B Notes, in an aggregate principal amount of $11.0 million, that bears interest at a rate of 5.38% per annum and are subordinated in right of payment to the Class A Notes. The weighted average interest rate for the Notes is 4.50%. Most of the net proceeds from the issuance of the Notes were used to repay a portion of the Company's lease pass-through financing obligations. The Company entered into certain management and operations and maintenance agreements with the Issuer pursuant to which the Company will provide operations and maintenance and administrative services for the Solar Assets.

Agreement to Issue Common Stock and Warrants

In July 2015, the Company entered into an agreement to issue up to 1,667,683 shares of its common stock ("Additional Shares") to holders of the Series D convertible preferred stock and Series E convertible preferred stock immediately prior to the closing of the Company's initial public offering, as consideration for their waiver of anti-dilution adjustments resulting from the issuance of shares in the Company's initial public offering and for their consent to convert their shares of convertible preferred stock into shares of common stock immediately prior to the closing of the

Company's initial public offering. The Additional Shares were issued to the holders of the Series D and E preferred stock on August 5, 2015, the date on which the Company's stock began trading on the NASDAQ Stock Market. As additional consideration, the Company also entered into a letter of intent to issue warrants to purchase up to 1,250,764 shares of common stock ("Additional Warrants," and together with the Additional Shares, the "Additional Securities") to such holders no later than October 1, 2015. The Additional Warrants shall be exercisable for three years from the date of grant and have an exercise price of $22.50 per share. The Additional Warrants may be exercised on a cashless basis.

Initial Public Offering

On August 10, 2015, the Company closed its initial public offering in which 17,900,000 shares of its common stock were sold at a public offering price of $14.00 per share, resulting in net proceeds to the Company of approximately $220.1 million, after deducting underwriting discounts and commissions and approximately $8.7 million in offering expenses payable by the Company, and excluding the proceeds received by the selling stockholders who sold an aggregate of 417,732 shares of the total 17,900,000 shares sold in the initial public offering. The offering costs are recorded in other assets in the Company's consolidated balance sheet. In connection with the completion of the Company's initial public offering, all outstanding shares of preferred stock were converted into the Company's common stock on one to one basis.

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

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, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressio that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to finance solar energy systems through financing arrangements with fund or other investors;
- our ability and intent to establish new investment funds;
- our dependence on the availability of rebates, tax credits and other financial incentives;
- determinations by the Internal Revenue Service or the U.S. Treasury Department of the fair market value of our solar energy systems;
- the retail price of utility-generated electricity or electricity from other energy sources;
- our ability to maintain an adequate rate of revenue growth;
- our business plan and our ability to effectively manage our growth;
- our ability to further penetrate existing markets and expand into new markets;
- our expectations concerning relationships with third parties, including the attraction and retention of qualified channel partners; and
- the calculation of certain of our key financial metrics.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

Overview

We provide clean, solar energy to homeowners at a significant savings compared to traditional utility energy. We have been selling solar energy to residential customers through a variety of offerings since we were founded in 2007. We,

either directly or through one of our solar partners, install a solar energy system on a customer's home and either sell the system to the homeowner or, as is more often the case, sell the energy generated by the system to the homeowner pursuant to a lease or power purchase agreement ("PPA") with no or low upfront costs. We refer to these leases and PPAs as "Customer Agreements." Following installation, a system is interconnected to the local utility grid. The home's energy usage is provided by the solar energy system, with any additional energy needs provided by the local utility.

Through the use of a bi-directional utility meter, any excess solar energy that is not immediately used by the homeowner is exported to the utility grid, and the homeowner receives a credit for the excess energy from their utility to offset future usage of utility-generated energy.

Until 2014, we provided our solar service offerings primarily through our solar partner channel and relied on our solar partners to originate customers for our solar service offerings and procure and install the solar energy systems on our customers' homes. In February 2014, we purchased the residential sales and installation business of Mainstream Energy Corporation, as well as its fulfillment business, AEE Solar, and its racking business, SnapNrack. We refer to these businesses collectively as "MEC." Following the MEC acquisition, we began offering our solar service offerings both directly to the homeowner and through our solar partners, which include sales and installation partners, and strategic partners, which include retail partners. In addition, following the acquisition, we began to sell solar energy systems directly to customers for cash. We also sell solar energy panels and other products to resellers through AEE Solar and SnapNrack. As of June 30, 2015, we offered our solar service offerings to customers in 15 states, plus the District of Columbia, and sold solar energy panels and other products to resellers throughout the United States. The majority of our cumulative systems deployed are in California, however, during the quarter ended June 30, 2015, no individual state comprised a majority of deployments during those three months. The acquisition of MEC provided us with direct-to-consumer installation capabilities in the areas we previously serviced only through our partner channel. We did not expand our solar service offerings to any new state as a result of the acquisition of MEC.

We compete mainly with traditional utilities. In the markets we serve, our strategy is to price the energy we sell below prevailing retail electricity rates. As a result, the price our customers pay to buy energy from us through our solar service offerings varies depending on the state where the customer lives and the local traditional utility that otherwise provides electricity to the customer as well as the prices other solar energy companies charge in that region. Even within the same neighborhood, site-specific characteristics drive meaningful variability in the revenue and cost profiles of each home. Using our proprietary technology, we target homes with advantageous revenue and cost characteristics, which means we are often able to offer pricing that allows customers to save more on their energy bill while maintaining our ability to meet our targeted returns. For example, with the insights provided by our technology, we can offer competitive pricing to customers with homes that have favorable characteristics, such as roofs that allow for easy installation, high electricity consumption, or low shading, effectively passing through the cost savings we are able to achieve on these installations to the homeowner.

Our ability to offer Customer Agreements depends in part on our ability to finance the purchase and installation of the solar energy systems by monetizing the resulting customer cash flows and related investment tax credits ("ITCs"), accelerated tax depreciation and other incentives from governments and local utilities. We monetize these incentives under tax equity investment funds which are generally structured as non-recourse project financings. Since inception, we have established 20 investment funds, which represent financing for an estimated $3.1 billion in value of solar energy systems on a cumulative basis. We intend to establish additional investment funds and may also use debt, equity and other financing strategies to fund our growth.

Recent Developments

Financing Arrangements

On July 9, 2015, we entered into a securitization transaction pursuant to which we pooled and transferred qualifying solar energy systems and related lease agreements secured by associated customer contracts ("Solar Assets") into a special purpose entity ("Issuer"). The Issuer, a wholly-owned indirect subsidiary of Sunrun, issued an aggregate principal amount of $111 million of asset-backed notes ("Notes") secured by and payable solely from the cash flows

generated by the Solar Assets. The Notes represent obligations of the Issuer and are not insured or guaranteed by Sunrun or any of our affiliates. The Notes consist of Class A Notes, in an aggregate principal amount of $100 million, that bear interest at a rate of 4.40% per annum, and Class B Notes, in an aggregate principal amount of $11 million, that bear interest at a rate of 5.38% per annum and are subordinated in right of payment to the Class A Notes. The weighted average interest rate for the Notes is 4.5%. Most of the net proceeds from the issuance of the Notes were used to repay a portion of our lease pass-through financing obligations. We entered into certain management and operations and maintenance agreements with the Issuer pursuant to which we will provide operations and maintenance and administrative services for the Solar Assets.

Agreement to Issue Common Stock and Warrants

In July 2015, we entered into an agreement to issue up to 1,667,683 shares of our common stock (“Additional Shares”) to holders of our Series D convertible preferred stock and Series E convertible preferred stock immediately prior to the closing of our initial public offering, as consideration for their waiver of anti-dilution adjustments resulting from the issuance of shares in our initial public offering and for their consent to convert their shares of convertible preferred stock into shares of common stock immediately prior to the closing of our initial public offering. The Additional Shares were issued to the holders of the Series D and E preferred stock on August 5, 2015, the date on which our stock began trading on the NASDAQ Stock Market. As additional consideration, we also entered into a letter of intent to issue warrants to purchase up to 1,250,764 shares of common stock (“Additional Warrants,” and together with the Additional Shares, the “Additional Securities”) to such holders no later than October 1, 2015. The Additional Warrants shall be exercisable for three years from the date of grant and have an exercise price of $22.50 per share. The Additional Warrants may be exercised on a cashless basis.

Initial Public Offering

On August 10, 2015, we closed our initial public offering in which 17,900,000 shares of our common stock were sold at a public offering price of $14.00 per share, resulting in net proceeds of approximately $220.1 million, after deducting underwriting discounts and commissions and approximately $8.7 million in offering expenses payable by us, and excluding the proceeds received by the selling stockholders who sold an aggregate of 417,732 shares of the total 17,900,000 shares sold in the initial public offering. The offering costs are recorded in other assets in our consolidated balance sheet. In connection with the completion of our initial public offering, all outstanding shares of preferred stock were converted into shares or our common stock on one to one basis.

Investment Funds

Our customer agreements provide for recurring customer payments, typically over 20 years, and the related solar energy systems are generally eligible for ITCs, accelerated tax depreciation and other government or utility incentives. Our financing strategy is to monetize these benefits at a low weighted-average cost of capital. This low cost of capital enables us to offer attractive pricing to our customers for the energy generated by the solar energy system on their homes. Historically, we have monetized a portion of the value created by our customer agreements and the related solar energy systems through investment funds. These assets are attractive to fund investors due to the long-term, recurring nature of the cash flows generated by our Customer Agreements, the high credit scores of our customers, the fact that energy is a non-discretionary good and our low loss rates. In addition, fund investors can receive attractive after-tax returns from our investment funds due to their ability to utilize ITCs, accelerated depreciation and certain government or utility incentives associated with the funds’ ownership of solar energy systems.

Since inception, we have formed 20 investment funds. Of these 20 funds, 15 are currently active and are described below. We have established different types of investment funds to implement our asset monetization strategy. Depending on the nature of the investment fund, cash may be contributed to the investment fund by the investor upfront or in stages based on milestones associated with the design, construction or interconnection status of the solar energy systems. The cash contributed by the fund investor is used by the investment fund to purchase solar energy systems. The investment funds either own or enter into a master lease with a Sunrun subsidiary for the solar energy systems, Customer Agreements and associated incentives. We receive on-going cash distributions from the investment funds representing a portion of the monthly customer payments received. We use the upfront cash as well as on-going distributions to cover our costs associated with purchasing and installing the solar energy systems. In addition, we also use debt, equity and other financing strategies to fund our operations. The allocation of the economic benefits between

us and the fund investor and the corresponding accounting treatment varies depending on the structure of the investment fund.

We currently utilize three legal structures in our investment funds, which we refer to as: (i) lease pass-throughs, (ii) partnership flips and (iii) joint venture ("JV") inverted leases. We reflect lease pass-through arrangements on our consolidated balance sheet as a lease pass-through financing obligation. We record the investor's interest in partnership flips or JV inverted leases (which we define collectively as consolidated joint ventures) as noncontrolling interests or redeemable noncontrolling interests. These consolidated joint ventures are usually redeemable at our option and, in certain cases, at the investor's option. If redemption is at our option or the consolidated joint ventures are not redeemable, we record the investor's interest as a noncontrolling interest and account for the interest using the hypothetical liquidation at book value ("HLBV") method. If the investor has the option to put their interest to us, we book the investor's interest as redeemable noncontrolling interest at the greater of the HLBV and the redemption value. As of June 30, 2015, one JV inverted lease is not redeemable and is accounted for using a pro rata income allocation.

For further information regarding our investment funds, including the associated risks, see “Risk Factors—Our ability to provide our solar service offerings to homeowners on an economically viable basis depends in part on our ability to finance these systems with fund investors who seek particular tax and other benefits” and Note 11 to our consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

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. Some of our key operating metrics are estimates that are based on our management’s beliefs and assumptions and on information currently available to management. Although we believe that we have a reasonable basis for each of these estimates, we caution you that these estimates are based on a combination of assumptions that may prove to be inaccurate over time. Such inaccuracies could be material to our actual results when compared to our calculations. Please see the section titled “Risk Factors” in this Quarterly Report on Form 10-Q. Furthermore, other companies may calculate these metrics differently than we do now or in the future, which would reduce their usefulness as a comparative measure.

- Megawatts Booked represents the aggregate megawatt production capacity of our solar energy systems sold to customers or subject to an executed customer agreement, net of cancellations.
- Megawatts Deployed represents the aggregate megawatt production capacity of our solar energy systems, whether sold directly to customers or subject to customer agreements, for which we have (i) confirmation that the systems are installed on the roof, subject to final inspection or (ii) in the case of certain system installations by our partners, accrued at least 80% of the expected project cost.
- Estimated Nominal Contracted Payments Remaining equals the sum of the remaining cash payments that customers are expected to pay over the initial terms of their agreements (not including the value of any renewal or system purchase at the end of the initial agreement term), including estimated uncollected prepayments, for systems contracted as of the measurement date.
- Estimated Retained Value represents the cash flows (discounted at 6%) we expect to receive pursuant to customer agreements during the initial agreement term, excluding substantially all value from solar renewable energy credits (“SRECs”). It also includes a discounted estimate of the value of the purchase or renewal of the agreement at the end of the initial term. Estimated retained value excludes estimated distributions to investors in consolidated joint ventures and estimated operating, maintenance and administrative expenses for systems contracted as of the measurement date. We do not deduct amounts we are obligated to pass through to investors in lease pass-throughs. Estimated retained value under energy contract represents the net cash flows during the initial 20-year term of our customer agreements. Estimated retained value of purchase or renewal is the forecasted net present value we would receive upon or following the expiration of the initial contract term.
- Estimated Retained Value Per Watt is calculated by dividing the estimated retained value as of the measurement date by the aggregate nameplate capacity of solar energy systems under customer agreements as of such date.

	For the Three Months Ended June 30,		
	2015	2014	
Megawatts booked (during the period)	61.2	50.8	(1)
Megawatts deployed (during the period)	42.4	35.4	(2)

As of June 30,

	2015	2014
Cumulative megawatts deployed (end of period)	472.5	322.7

(1) Includes 14.7 MWs associated with purchase of asset portfolio in the second quarter of 2014.

(2) Includes 11.3 MWs associated with purchase of asset portfolio in the second quarter of 2014.

	As of June 30,	
	2015	2014
	(in thousands, except per watt values)	
Estimated nominal contracted payments remaining	$1,917,267	$1,248,511
Estimated retained value under energy contract	$807,843	$498,055
Estimated retained value of purchase or renewal	415,142	288,944
Estimated retained value	$1,222,985	$786,998
Estimated retained value per watt	$2.39	$2.40

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates during the three months ended June 30, 2015 from those disclosed in our prospectus dated August 4, 2015, filed with the SEC pursuant to Rule 424 promulgated under the Securities Act of 1933, as amended.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the consolidated financial statements and notes thereto included elsewhere in this quarterly report on Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Revenue:				
Operating leases and incentives	$34,458	$22,987	$56,766	$41,428
Solar energy systems and product sales	38,232	28,952	65,601	40,914
Total revenue	72,690	51,939	122,367	82,342
Operating expenses:				
Cost of operating leases and incentives	27,067	17,359	48,444	32,255
Cost of solar energy systems and product sales	34,624	25,333	59,954	35,808
Sales and marketing	33,976	17,173	58,902	29,762
Research and development	2,492	1,999	4,779	3,926
General and administrative	19,677	20,037	39,983	32,687
Amortization of intangible assets	1,051	655	1,593	1,118
Total operating expenses	118,887	82,556	213,655	135,556
Loss from operations	(46,197)	(30,617)	(91,288)	(53,214)
Interest expense, net	8,433	6,662	15,563	12,324
Loss on early extinguishment of debt	431	—	431	—
Other expenses	1,019	1,386	1,318	1,846
Loss before income taxes	(56,080)	(38,665)	(108,600)	(67,384)
Income tax benefit	(6,215)	(5,917)	(6,215)	(10,043)
Net loss	(49,865)	(32,748)	(102,385)	(57,341)
Net income (loss) attributable to noncontrolling interests and redeemable noncontrolling interests	(57,405)	(15,517)	(91,930)	(28,389)
Net loss attributable to common stockholders (1)	$7,540	$(17,231)	$(10,455)	$(28,952)
Less: Net income allocated to participating securities	(7,540)	—	—	—
Net income (loss) available to common stockholders	$—	$(17,231)	$(10,455)	$(28,952)
Net income (loss) per share available to common shareholders—basic and diluted	$—	$(0.72)	$(0.41)	$(1.35)
Weighted average shares used to compute net loss per share available to common stockholders—basic and diluted	26,215	23,827	25,322	21,437

(1) The Company calculates net income (loss) per share (EPS) available to common stockholders using the two-class method. The two-class method allocates net income that otherwise would have been available to common shareholders to holders of participating securities. The Company considers all series of our convertible preferred stock to be participating securities due to their non-cumulative dividend rights. As such, net income allocated to these participating securities, which include participating rights in undistributed net income, is first subtracted from net income attributable to common stockholders to determine the amount available to the common stockholders.

Comparison of the Three Months Ended June 30, 2015 and 2014

Revenue

	Three Months Ended June 30,		Change	
	2015	2014	$	%
	(in thousands)			
Operating leases	$22,915	$16,788	$6,127	36%
Incentives	11,543	6,199	5,344	86%
Operating leases and incentives	34,458	22,987	11,471	50%
Solar energy systems	7,028	5,741	1,287	22%
Products	31,204	23,211	7,993	34%
Solar energy systems and product sales	38,232	28,952	9,280	32%
Total revenue	$72,690	$51,939	$20,751	40%

Operating lease revenue increased by $6.1 million related to an increase in solar assets under Customer Contracts being placed in service in the period from June 30, 2014 through June 30, 2015. Revenue from incentives increased $5.3 million due to a $4.7 million increase in ITC revenue, which relates to solar systems in lease pass-through funds being placed in service in the prior year as we recognize revenue from the monetization of ITCs annually over five years on each anniversary of a solar energy system's permission-to-operate date.

Revenue from solar energy systems sales increased by $1.3 million compared to the prior year period due to higher sales volume. Product sales increased by $8.0 million compared to the prior period due to the CEE acquisition in April 2015, as well as increased volume of other products revenue due to overall growth.

Operating Expenses

	Three Months Ended June 30,		Change	
	2015	2014	$	%
	(in thousands)			
Cost of operating lease and incentives	$27,067	$17,359	$9,708	56%
Cost of solar energy systems and product sales	34,624	25,333	9,291	37%
Sales and marketing	33,976	17,173	16,803	98%
Research and development	2,492	1,999	493	25%
General and administrative expense	19,677	20,037	(360)	-2%
Amortization of intangible assets	1,051	655	396	60%
Total operating expenses	$118,887	$82,556	$36,331	44%

Cost of Operating Leases and Incentives. The $9.7 million increase in cost of operating leases and incentives was primarily due to the increase in solar energy systems placed in service in the period from June 30, 2014 through June

30, 2015, which resulted in an increase in depreciation and amortization of solar energy system equipment costs and initial direct costs, as well as non-capitalizable costs associated with building and maintaining solar energy systems subject to customer agreements.

Cost of Solar Energy Systems and Product Sales. The $9.3 million increase in cost of solar energy systems and product sales represents an increase in the direct and indirect material and personnel costs of solar energy systems sold directly to customers as well as solar panels, inverters and other solar-related products sold to resellers, including the costs associated with the lead sales.

Sales and Marketing Expense. The $16.8 million increase in sales and marketing expense was attributable to the expansion of our direct-to-consumer channel as well as our continued efforts to grow our business by entering new markets, increasing hiring of sales and marketing personnel and internal lead generation through advertising and other channels.

Research and Development. The $0.5 million increase in research and development expenses primarily resulted from an increase in fees paid to external consultants in connection with ongoing development of our pricing and quoting platforms.

General and Administrative Expense. The $0.4 million decrease in general and administrative expenses primarily resulted from savings in consulting and legal fees.

Amortization of Intangible Assets. The $0.4 million increase in amortization expense resulted from the amortization of intangible assets acquired from the CEE acquisition in April 2015.

Non-Operating Expenses

	Three Months Ended			
	June 30,		Change	
	2015	2014	$	%
	(in thousands)			
Interest expense, net	$8,433	$6,662	$1,771	27 %
Loss on early extinguishment of debt	431	—	431	N/A
Other expenses	1,019	1,386	(367)	-26 %
Total interest and other expenses, net	$9,883	$8,048	$1,835	23 %

Interest Expense, net. The increase in interest expense, net of $1.8 million was related to an increase in imputed interest on additional lease pass-through obligations entered into in 2014 and additional interest expense related to additional borrowings entered into in late 2014 and in the three months ended June 30, 2015.

Other Expense. The decrease in other expense of $0.4 million primarily represents a smaller loss from our investment in The Alliance for Solar Choice (“TASC”) in 2015.

Income Tax Benefit

	Three Months Ended			
	June 30,		Change	
	2015	2014	$	%
	(in thousands)			
Income tax benefit	$ (6,215)			