Vivint Solar, Inc.
Form 10-K
March 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-36642

VIVINT SOLAR, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	45-5605880
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3301 N. Thanksgiving Way, Suite 500

Lehi, UT

84043

(Address of principal executive offices) (Zip Code)

(877) 404-4129

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value $0.01 Per Share;	Common stock traded on the New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ¨ NO x

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 x NO ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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

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

As of June 30, 2015, the last business day of the registrant's most recently completed second quarter, the aggregate market value of voting stock held by non-affiliates of the registrant based on the closing price of $12.17 for shares of

the registrant's common stock as reported by the New York Stock Exchange, was approximately $264.1 million.

As of March 2, 2016, there were 106,595,407 shares of registrant's common stock outstanding.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on June 6, 2016, are incorporated by reference into Part III of this report.

Table of Contents

PART I

Forward-looking Statements

This report, including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and certain information incorporated by reference into this report contain 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. Forward-looking statements are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may,” “seek” and other similar expressions. You should rea statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition or state other “forward-looking” information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements.

These forward-looking statements include, but are not limited to:

- federal, state and local regulations and policies governing the electric utility industry;
- the regulatory regime for our offerings and for third-party owned solar energy systems;
- technical limitations imposed by operators of the power grid;
- the continuation of tax rebates, credits and incentives, including changes to the rates of the income tax credit, or ITC, beginning in 2020;
- the price of utility-generated electricity and electricity from other sources;
- our ability to finance the installation of solar energy systems;
- our ability to efficiently install and interconnect solar energy systems to the power grid;
- our ability to sustain and manage growth and costs;
- our ability to further penetrate existing markets, expand into new markets and expand into markets for non-residential solar energy systems, such as the commercial and industrial market, or C&I;
- our ability to develop new product offerings and distribution channels;
- our relationship with our sister company Vivint Inc., or Vivint, and The Blackstone Group L.P., our sponsor;
- our ability to manage our supply chain;
- the cost of solar panels and the residual value of solar panels after the expiration of our customer contracts;
- the course and outcome of litigation and other disputes; and
- our ability to maintain our brand and protect our intellectual property.

In combination with the risk factors we have identified, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Further, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all, or as predictions of future events. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 1. Business.

BUSINESS

Overview

We primarily offer distributed solar energy — electricity generated by a solar energy system installed at or near customers' locations — to residential customers based on 20-year contracts at prices below their current utility rates. Our customers pay little to no money upfront, and typically save 20% to 40% on solar-generated electricity rates relative to utility-generated electricity rates following system interconnection to the power grid and continue to benefit from locked-in energy prices over the term of their contracts, insulating them against unpredictable increases in utility rates. In 2015, we began offering our customers the option to purchase solar energy systems.

Our 20-year customer contracts generate predictable, recurring cash flows and establish a long-term relationship with homeowners. Through our investment funds, we own an interest in the solar energy systems we install and ownership of the solar energy systems allows us and the other fund investors to benefit from various local, state and federal incentives. We obtain financing based on these cash flows and incentives. When customers decide to move or sell the home prior to the end of their contract term, the customer contracts allow our customers to transfer their obligations to the new home buyer, subject to a creditworthiness determination. If the home buyer is not creditworthy or does not wish to assume the customer's obligations, the contract allows us to require the customer to purchase the system. Our sources of financing are used to offset our direct installation costs and most, if not all, of our allocated overhead expenses.

From our inception in May 2011 through December 31, 2015, we have experienced rapid growth, installing solar energy systems with an aggregate of 458.9 megawatts of capacity at more than 68,500 homes in 12 states for an average solar energy system capacity of approximately 6.7 kilowatts. According to GTM Research, an industry research firm, we were the second largest installer of solar energy systems to the U.S. residential market in 2015, capturing approximately 11% market share in the third quarter of 2015, down from approximately 16% in the third quarter of 2014. We attribute the decrease in market share to distractions from the proposed SunEdison acquisition and increased competition in the residential solar market. We believe the key ingredients to our growth include the following:

- High growth industry. The market for residential distributed solar energy is growing rapidly and disrupting the traditional electricity market. According to GTM Research, the U.S. residential solar energy market is expected to grow at a compound annual growth rate, or CAGR, of approximately 19% from 2015 through 2020.

- Differentiated and scalable platform. We have developed an integrated approach to providing residential distributed solar energy where we fully control the lifecycle of our customers' experience including the initial professional consultation, design and engineering process, installation and ongoing monitoring and service. We deploy our sales force on a neighborhood-by-neighborhood basis, which allows us to cultivate a geographically concentrated customer base that reduces our costs and increases our operating efficiency. We couple this model with repeatable and scalable processes to establish warehouse facilities, assemble and train sales and installation teams and open new offices. We believe that our processes enable us to expand within existing markets and into new markets. We also believe that our direct sales model and integrated approach represent a differentiated platform, unique in the industry that accelerates our growth by maximizing sales effectiveness, delivering high levels of customer satisfaction and driving cost efficiency.

- Long-term, highly visible, recurring cash flow. The majority of our customers sign 20-year contracts for solar electricity generated by the system owned by us and pay us directly over the term of their contracts. These customer contracts generate recurring monthly customer payments. As of December 31, 2015, the average estimated nominal contracted payment for our customer contracts was approximately $28,500, and there is the potential for additional payments if customers choose to renew their contracts at the end of the term. The solar energy systems we install are eligible for ITCs, accelerated tax depreciation and other utility and governmental incentives. We have historically financed the assets created by substantially all of these contracts through investment funds.

As of February 29, 2016, we had raised 16 residential investment funds to which investors such as banks have committed to invest approximately $1.1 billion which will enable us to install solar energy systems of total fair market value approximating $2.6 billion. As of February 29, 2016, we had remaining tax equity commitments to fund approximately 55 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $241 million.

Our Approach

We secure financing that enables our customers to access solar energy for little to no upfront cost to them. The key elements of our integrated approach to providing distributed solar energy include:

- Professional consultation. We deploy our direct-to-home sales force to provide in-person professional consultations to prospective customers to evaluate the feasibility of installing a solar energy system at their residence. Our sales closing and referral rates are enhanced by homeowners' responsiveness to our direct-to-home, neighborhood-by-neighborhood outreach strategy.

- Design and engineering. We have developed a process that enables us to design and install a custom solar energy system that delivers customer savings. This process, which incorporates proprietary software, standardized templates and data derived from on-site surveys, allows us to design each system to comply with complex and varied state and local regulations and optimize system performance on a per panel basis. We continue to pursue technology innovation to integrate accurate system design into the initial in-person sales consultation as a competitive tool to enhance the customer

experience and increase sales close rates. For example, in 2015 we released our internal-use SunEye 360 site survey and system design tool that improves the accuracy of our solar energy generation estimates and decreases the number of homes where our personnel need to get on the roof for pre-installation measurements, which reduces the invasiveness of these initial processes on the customer experience.

- Installation. We are a licensed contractor in the markets we serve and are responsible for each customer installation. Once we complete the system design, we obtain the necessary building permits and begin installation. Upon completion, we schedule the required inspections and arrange for interconnection to the power grid. By directly handling these logistics, we control quality and streamline the system installation process for our customers. Throughout this process, we apprise our customers of the project status with regular updates from our account representatives.

- Monitoring and service. We monitor the performance of our solar energy systems, leveraging a combination of internally developed solutions as well as capabilities provided by our suppliers. Our systems use communication gateways and monitoring services to collect performance data and we use this data to ensure that we deliver quality operations and maintenance services for our solar energy systems. If services are required, our strong local presence enables rapid response times.

- Referrals. We believe our commitment to delivering customer satisfaction and our concentrated geographic deployment strategy have generated a significant amount of sales through customer referrals, which increase our neighborhood penetration rates, lower our customer acquisition costs and drive our growth. Our financial returns also benefit from the cost savings derived from increasing the density of installations in a neighborhood.

Our Strategy

Our goal is to become the premier provider of distributed solar energy. Key elements of our strategy include:

- Further penetrating our existing markets. While we have chosen to initially introduce our solar energy systems in states whose utility prices, sun exposure, climate conditions and regulatory policies provide for the most compelling market for distributed solar energy, we believe that many of those states are still significantly underpenetrated. Accordingly, we intend to increase our presence in many of these markets by introducing our solar energy systems into new neighborhoods and communities in states in which we already have operations. We intend to leverage our existing customer base to grow in these markets at lower customer acquisition and installation costs relative to our competitors. In addition, we have complemented our existing go-to-market strategy with outright sales of solar energy systems.

- Expanding into new locations and commercial markets. To enlarge our addressable market, we plan to expand our presence to new states and we have entered the C&I market, which includes small businesses such as community retailers as well as larger retailers and manufacturers. We plan to pursue similar debt, equity and other financing strategies consistent with our approach in the residential market, including creating investment funds, to help finance our C&I operations. In May 2015, we entered into a C&I solar investment fund arrangement with a fund investor. As of December 31, 2015, we have contracts in place with commercial off-takers but no projects have been accepted into the fund. The development cycle of C&I projects is typically longer than the development of residential solar energy systems due to complexities associated with larger system sizes and installations. The project approval process by the fund investor has been delayed due to uncertainty related to the proposed SunEdison acquisition.

- Capitalizing on opportunities to increase sales and lower costs. We intend to capitalize on our opportunities to increase sales and lower costs through internal development initiatives and alternative financing structures. We plan to make additional investments in new technologies related to our system design and installation and ongoing customer service practices. Such investments will enable us to continue to improve our operating efficiency, cost structure and customer satisfaction.

- Building and leveraging strategic relationships. We plan to build and leverage strategic relationships with new and existing partners to grow our business and drive cost reductions. For example, in addition to our direct sales channel, we are currently exploring opportunities to sell solar energy systems to customers through a number of distribution channels including relationships with real estate management companies, homebuilders, home improvement stores, large construction, electrical and roofing companies and other third parties that have access to large numbers of potential customers. In February 2016, we entered into an agreement with a real estate management company to install solar on 488 homes in Utah. We expect to enter into other similar agreements with real estate management companies. In addition, we expect to benefit from Blackstone’s network of strategic relationships.

Customer Contracts

Prior to the first quarter of 2014, all of our long-term contracts were structured as power purchase agreements. In 2014, we began offering legal-form leases to residential customers. In 2015, we began offering contracts whereby customers could purchase solar energy systems with cash or enter into a loan product administered by a third party. Of our over 68,500 cumulative installations through December 31, 2015, approximately 1,300 systems were leased. Through December 31, 2015, a de minimis number were sold; however, we expect installations related to sales to grow in future periods.

In the power purchase agreement structure, we charge customers a fee per kilowatt hour based on the amount of electricity the solar energy system actually produces. In the lease structure, the customer's monthly payment is fixed based on a calculation that takes into account expected solar energy generation. The lease includes a performance guarantee under which we agree to refund a proportion of the customer payments if the leased solar energy system does not meet the annual guaranteed energy production level. As of December 31, 2015, the average FICO score of our customers was approximately 760. The power purchase agreement and lease terms are typically for 20 years, and all of the prices that we charge to our customers are subject to pre-determined annual fixed percentage price escalations as specified in the customer contract. Since January 2014, substantially all of our customer contracts have included an annual price escalator of 2.9%. Over the term of these agreements, we operate the systems and agree to maintain them in good condition. Customers who buy energy from us under power purchase agreements or lease systems are covered by our workmanship warranty equal to the length of the term of these agreements.

Sales and Marketing

We place our integrated residential solar energy systems through a scalable sales organization that primarily uses a direct-to-home sales model. We believe that a high-touch, customer-focused selling process is important before, during and after the sale of our products to maximize our sales success. The members of our sales force typically reside and work within the market they serve. We also generate a significant amount of sales through customer referrals. We have found that customer referrals increase in relation to our penetration in a particular market and shortly after entering a new market become an increasingly effective way to market our solar energy systems. In addition to direct sales, we sell to customers through our inside sales team and through our retail channel that reaches new customers at kiosks in malls and other locations. We also continue to explore opportunities to sell solar energy systems to customers through a number of other distribution channels, including relationships with real estate management companies, home builders, home improvement stores, large construction, electrical and roofing companies and other third parties that have access to large numbers of potential customers.

We establish a sales office in each market that we enter. A typical sales team may consist of 15 to 20 sales representatives, depending on the sales region, which we refer to as sales managers, and one to two district managers. Sales managers are typically recruited by district managers or through our sales recruiting team. These sales teams are supported by approximately 30 installation technicians and an operations manager. There are also regional managers who generally oversee 10 to 20 sales offices. As of December 31, 2015, we had 66 total sales offices.

Operations and Suppliers

We purchase solar panels directly from multiple manufacturers. During 2015, Trina Solar Limited, Yingli Green Energy Americas, Inc. and JinkoSolar Holding Co., Ltd. accounted for substantially all of our solar photovoltaic module purchases and Enphase Energy, Inc. and SolarEdge Technologies Inc. accounted for substantially all of our inverter purchases. Ecolibrium Solar, EcoFasten Solar and Mounting Systems Inc. accounted for substantially all of our racking purchases. We generally source the other products related to our solar energy systems, such as fasteners, wiring and electrical fittings, through a variety of distributors.

If we fail to develop, maintain and expand our relationships with these or other suppliers, our ability to meet anticipated demand for our solar energy systems may be adversely affected, or we may only be able to offer our systems at higher costs or after delays. If one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, it may be difficult to quickly identify alternative suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected.

We screen all suppliers and components based on expected cost, reliability, warranty coverage, ease of installation and other ancillary costs. We typically enter into master contract arrangements with our major suppliers that define the general terms and conditions of our purchases, including warranties, product specifications, indemnities, delivery and other customary terms. We typically purchase solar panels, inverters and racking from our suppliers at then prevailing prices pursuant to purchase orders issued under our master contract arrangements.

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the price we charge for electricity and customer adoption of solar energy. According to industry experts, solar panel and raw material prices are not expected to continue to decline at the same rate as they have over the past several years. The resulting prices we pay for components could slow our growth and cause our financial results to suffer. In the past we have purchased virtually all of the solar panels used in our solar energy systems from manufacturers based in China and we expect that our manufacturers will begin to seek lower tariff countries such as Vietnam, Malaysia and Thailand.

As of December 31, 2015, we operated in Arizona, California, Connecticut, Hawaii, Maryland, Massachusetts, New Jersey, New Mexico, New York, Pennsylvania, South Carolina and Utah. Our corporate headquarters are located in Utah. We manage inventory through our local warehouses and maintain a fleet of nearly 900 trucks and other vehicles to support our installers and operations. In 2015, our field teams completed on average approximately 2,730 residential installations per month. Our project management teams simultaneously manage thousands of projects as they move through the stages of engineering, permitting, installation, maintenance and monitoring.

We offer an installation warranty that the solar energy systems under our customer contracts will be free from material defects in design and workmanship for the term of the contract as well as a limited warranty on roof penetrations. We are also obligated to maintain the solar energy systems in good condition for the term of the contract or for a stated period, usually 20 years.

We provide a performance guarantee to our lease customers that requires us to refund money to the lessee if the solar energy system fails to generate the minimum amount of electricity in a given term, as specified in the lease. We compensate customers if their systems produce less energy than the guaranteed amount in any given year by making a payment to customers with under-performing systems. Through December 31, 2015, such compensation has been de minimis. As of December 31, 2015, approximately 1,300 of our systems in service had been leased. As the number of leased systems grows, payments for underperforming systems may increase over time and may vary from period-to-period based on a number of factors, including weather conditions in the areas in which we lease systems, which may adversely impact our results of operations.

We further offer a range of warranties on our solar energy systems to our investment funds. All of our systems feature a workmanship warranty during which we are obligated, at our cost and expense, to correct defects in our installation work, which depending on the particular investment fund, is for periods of five to twenty years. Generally our maintenance obligations to our investment funds do not include the cost of panels, inverters or racking, should such major components require replacement. The cost of such components are borne instead by the applicable investment fund, although we are obligated to install such equipment as part of our services covered by the agreed maintenance services fee. This obligation is satisfied by Vivint Solar Developer, LLC, on behalf of Vivint Solar Provider, LLC, which provides operations and maintenance services to each of our investment funds. As part of Vivint Solar Provider’s operations and maintenance work, we provide a pass-through of the inverter and panel manufacturers’ warranty coverage to our customers, which generally range from 10 to 25 years. We also provide ongoing service and repair during the entire term of the customer relationship, regardless of whether or not such repairs are covered by our or a manufacturer’s warranty. We expect the costs we incur in providing these services will continue to grow as the number of systems in our portfolio increases and as installed solar energy systems age.

Competition

We believe that our primary competitors are the traditional utilities that supply electricity to our potential customers. We compete with these traditional utilities primarily based on price (cents per kilowatt hour), predictability of future prices (by providing pre-determined annual price escalations) and the ease by which customers can switch to electricity generated by our solar energy systems. We believe that we compete favorably with traditional utilities

based on these factors in the states where we operate.

We also compete with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies and with solar companies with business models that are similar to ours, such as SolarCity Corporation and Sunrun Inc. We believe that we compete favorably with these companies; however, in 2015, we experienced a decrease in market share which we attribute to distractions associated with the proposed SunEdison acquisition.

In addition, we compete with solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations that acquire customers and then subcontract out the installation of solar energy systems, from installation businesses that seek financing from external parties, from large construction companies and utilities and increasingly from sophisticated electrical and roofing companies. These distributed energy competitors typically work in contractual arrangements with third parties, leaving the customer in the position of having to deal with different companies for different aspects of their solar energy systems. We believe that we compete favorably with these companies because we offer an integrated approach to residential solar energy systems, which includes in-house sales, financing, engineering, installation, maintenance and monitoring. Many of our competitors offer only a subset of the services we provide. Aside from simple cost efficiency, we offer distinct practical benefits as an all-in-one provider such as providing a single point of contact and accountability for our offerings during the relationship with our customers. Further, we are not dependent on installation subcontractors, enabling us to better scale our business while maintaining quality control.

Technology and Intellectual Property

As of December 31, 2015, we, directly or through our wholly owned subsidiary Vivint Solar Labs (formerly known as Solmetric Corporation) had five patents and 12 pending applications with the U.S. Patent and Trademark Office. These patents and applications relate primarily to shade and site analysis. Our issued patents start expiring in 2026. We intend to file additional patent applications as we innovate through our research and development efforts.

Vivint Solar Labs is our research and development team focused on proprietary photovoltaic installation instruments and software. In February 2015, we decided to discontinue external sales of two of the three main Vivint Solar Labs products, which were at the end of their product life cycles. We will continue selling the PV Analyzer product, which is commercially used in commissioning, auditing, operating, maintaining and troubleshooting issues with photovoltaic systems. We will continue to develop and produce the discontinued products for internal use only.

As part of our strategy, we may expand our technological capabilities through targeted acquisitions such as Solmetric, licensing technology and intellectual property from third parties, joint development relationships with partners and suppliers and other strategic initiatives as we strive to offer the industry’s best operational efficiency, performance prediction, operations and management.

Government Regulation, Policies and Incentives

Government Regulation

We are not regulated as a public utility in the United States under current applicable national, state or other local regulatory regimes where we conduct business.

To operate our systems we obtain interconnection permission from the applicable local primary electric utility. Depending on the size of the solar energy system and local law requirements, interconnection permission is provided by the local utility and us and/or our customer. In almost all cases, interconnection permissions are issued on the basis of a standard process that has been pre-approved by the local public utility commission or other regulatory body with jurisdiction over net metering procedures. We maintain a utility administration function, with primary responsibility for engaging with utilities and ensuring our compliance with interconnection rules.

Our operations are subject to stringent and complex federal, state and local laws, including regulations governing the occupational health and safety of our employees and wage regulations. For example, we are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, the U.S. Department of Transportation, or DOT, and comparable state laws that protect and regulate employee health and safety. We strive to

maintain compliance with applicable OSHA, DOT and similar government regulations; however, as discussed in the section captioned “Risk Factors—Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity,” there have been instances in which we experienced workplace accidents and received citations from regulators, resulting in fines. Such instances have not materially impacted our business or relations with our employees.

Government Policies

Net metering is one of several key policies that have enabled the growth of distributed solar in the United States. Net metering allows a homeowner to pay his or her local traditional utility only for their power usage net of production from the solar energy system installed on his or her roof. Where the customer’s utility provides for net metering, the customer typically pays for the net energy used or receives a credit against future bills at the retail rate if more energy is produced than consumed. Homeowners receive credit for the energy that the solar installation exports to the local power grid, and are reimbursed by the utility for net excess

generation in some utility markets, including some of those in which we operate. Forty-one states, Puerto Rico, the District of Columbia, American Samoa and the U.S. Virgin Islands have adopted some form of net metering law or regulation. According to the U.S. Energy Information Administration, or EIA, the total number of net metered customers in the United States has grown at a CAGR of approximately 90%, from approximately 19,000 households in 2005 to approximately 6,213,130 households in 2014. Net metering programs have been subject to regulatory scrutiny or legislative proposals in Arizona, California, Colorado, Hawaii, Nevada, Puerto Rico, Utah and several other states. Regulators in these states have considered imposing limits on the aggregate capacity of net metering generation, fees on net metering customers, reducing the rate that net metering customers are paid for the power that they deliver back to the grid and allegations that homeowners with net metered solar systems shift the costs of maintaining the electric grid onto non-solar ratepayers. In California, the Public Utilities Commission largely upheld net metering in its current form with full retail compensation for exports, but did impose some additional fees on net metering customers, and will require such customers to take service on time-of-use rates. In 2015, Hawaii's Public Utilities Commission significantly lowered the rate of compensation paid to net metering customers. In late 2015, the Nevada Public Utilities Commission voted in favor of a plan which limits export compensation to net metering customers and imposed high monthly fees, which greatly reduced the economic benefit to Nevada customers of residential solar. As a result we no longer have a presence in Nevada.

Government Incentives

Federal, state and local government bodies and utilities provide incentives to various parties, including owners, end users, distributors, system integrators and manufacturers of solar energy systems to promote solar energy. These incentives come in various forms, including rebates, tax credits and other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation and exclusion of solar energy systems from property tax assessments. These incentives enable us to lower the price we charge our customers, helping to catalyze customer acceptance of solar energy as an alternative to utility-provided power.

The Federal government currently offers a 30% ITC under Section 48(a) of the Internal Revenue Code for the installation of certain solar power facilities; legislation was passed in December 2015 which extended this 30% rate until December 31, 2019. The rate will decrease to 26% in 2020 and 22% in 2021. By statute, this tax credit is scheduled to decrease to 10% on January 1, 2022.

The economics of purchasing a solar energy system are also improved by eligibility for accelerated depreciation, also known as the modified accelerated cost recovery system, or MACRS, which allows for the depreciation of equipment according to an accelerated schedule established by the Internal Revenue Service. The acceleration of depreciation creates a valuable tax benefit that reduces the overall cost of the solar energy system and increases the return on investment.

Approximately half of the states in which we operate offer a personal and/or corporate investment or production tax credit for solar energy that is additive to the ITC. Further, most of the states and local jurisdictions have established property tax incentives for renewable energy systems that include exemptions, exclusions, abatements and credits.

Many state governments, traditional utilities, municipal utilities and co-operative utilities offer a rebate or other cash incentive for the installation and operation of a solar energy system or energy efficiency measures. Capital costs or "up-front" rebates provide funds to solar customers or developers or systems owners based on the cost, size or expected production of a customer's solar energy system. Performance-based incentives provide cash payments to solar customers or a system owner based on the energy generated by the solar energy system during a pre-determined period.

Many states also have adopted procurement requirements for renewable energy production. Twenty-nine states, the District of Columbia and three U.S. territories have adopted a renewable portfolio standard that requires regulated utilities to procure a specified percentage of total electricity delivered to customers in the state from eligible renewable energy sources, such as solar energy systems, by a specified date. To prove compliance with such mandates, utilities usually must surrender solar renewable energy certificates, or SRECs to the applicable authority. Solar energy system owners such as our investment funds often are able to sell SRECs to utilities directly or in SREC markets.

Workforce

As of December 31, 2015, we had a total workforce of 3,685, including 1,750 employees in installation, 831 service providers in sales and marketing, 790 employees in operations, 282 employees in general and administrative and 32 employees in research and development. Our sales and marketing headcount includes 721 active direct sellers. We consider a direct sales person to be active if they completed at least four customer pre-surveys in the prior four weeks. Our operations personnel work primarily in installation, design and account management. Our general and administrative personnel work primarily in finance, business development, capital markets and human resources. None of our service providers are represented by a labor union and we consider relations with our workers to be good.

Item 1A. Risk Factors

You should carefully consider the following risk factors, together with all of the other information included in this report, including the section of this report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes. If any of the following risks occurred, it could materially adversely affect our business, financial condition or operating results. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report.

Risk Related to our Proposed Acquisition by SunEdison

SunEdison's failure to complete the acquisition has affected and may in the future, materially and adversely affect our results of operations and stock price.

On July 20, 2015, we entered into an Agreement and Plan of Merger, or Merger Agreement, as amended by the Amendment to the Agreement and Plan of Merger, dated as of December 9, 2015, with SunEdison, Inc., or SunEdison, a Delaware corporation, and SEV Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of SunEdison, pursuant to which the we were to have been acquired by SunEdison.

We delivered notice to SunEdison on February 26, 2016, and again on March 1, 2016, that, pursuant to the terms of the Merger Agreement, SunEdison was required to cause the closing of the acquisition to occur on February 26, 2016, and remained obligated to cause the closing to occur, given that all conditions to SunEdison's obligations to close the acquisition in the Merger Agreement were satisfied on February 24, 2016 when (1) our stockholders adopted the Merger Agreement, and (2) the marketing period contemplated by the Merger Agreement related to SunEdison's financing of the acquisition (which commenced when we delivered all required information to SunEdison on February 11, 2016) terminated on February 21, 2016. SunEdison's failure to cause the closing within three business days of the delivery of the notices specified in the preceding sentence triggered our right to terminate the Merger Agreement pursuant to Section 7.01(i) thereof.

Moreover, as of SunEdison's failure to cause the closing to occur on February 26, 2016, SunEdison was in breach of its covenants under Sections 1.02 and 4.05(a) of the Merger Agreement, and such breach resulted in the failure of the conditions set forth in Section 6.02 of the Merger Agreement to be satisfied on such date. SunEdison's representatives subsequently informed us that SunEdison was unable to cause the closing to occur in the foreseeable future. Since such breach was therefore incurable prior to March 18, 2016, the date on which the Merger Agreement would otherwise terminate, we have the right to terminate the Merger Agreement pursuant to Section 7.01(e) thereof.

As a result of the foregoing and in accordance with and pursuant to our rights under Section 7.01(i) and 7.01(e) of the Merger Agreement, we terminated the Merger Agreement on March 7, 2016. On March 8, 2016, we filed suit in the Court of Chancery State of Delaware against SunEdison and SEV Merger Sub Inc. alleging that SunEdison willfully breached its obligations under the Merger Agreement. While we believe that SunEdison willfully breached its obligations under the Merger Agreement and that our claims have merit and are likely to succeed, the outcomes of lawsuits are inherently unpredictable, and we may be unsuccessful in our claims.

However, SunEdison's failure to close the acquisition presents significant risks to us, including:

- we will not realize any or all of the potential benefits of the acquisition, including any synergies that could result from combining the resources of us and SunEdison, which could have a negative effect on our stock price;
.

we will remain liable for significant transaction costs, including legal, accounting, financial advisory and other costs relating to the transaction;

- the attention of our management and employees has been diverted, and may continue to be diverted, from day-to-day operations as we pursue our remedies under the Merger Agreement;
- our business has been disrupted by customer uncertainty over when or if the acquisition will be completed or customers' and investors' perception of us as a standalone company and our business may continue to be affected by the residual impact of these or similar factors;
- under the Merger Agreement, we were subject to certain restrictions on the conduct of our business prior to completing the acquisition, which restrictions have adversely affected our ability to conduct business as we otherwise would have done if we were not subject to these restrictions and our business may continue to be affected by the residual impact of these or similar factors;

- due to investor uncertainty regarding the acquisition, our ability to raise additional financing was limited, which may adversely affect our ability to raise additional financing in a timely manner or on favorable terms; and
- our ability to retain current key employees or attract new employees may be harmed by uncertainties associated with our future as a standalone company.

The occurrence, continuation or exacerbation of any of these events individually or in combination could materially and adversely affect our results of operations and stock price.

The announcement and pendency of the acquisition caused disruptions in our business, which has had, and may continue to have, an adverse effect on our business operations and financial results.

During the pendency of the acquisition, we and SunEdison operated independently. Uncertainty about the effect of the acquisition on customers and employees has had, and may continue to have, an adverse effect on us and consequently, may have an adverse effect on our business operations and financial results as a standalone company. During the pendency of the acquisition, current and prospective employees experienced uncertainty about their future with SunEdison, us or the combined company. These uncertainties have impaired, and may continue to impair the ability of us to retain, recruit or motivate key personnel, and may have negatively impacted the productivity of current employees. In addition, due to these uncertainties and to SunEdison's required approvals, we ceased certain employee actions such as hiring, terminating and reallocating personnel. Our employees and our management teams reallocated significant time to integration efforts. We deferred transitions to key IT systems as a standalone company. We were also caused to defer and delay financing options, including additional acquiring investment funds and debt facilities, which has decreased our operational efficiency and effectiveness. Further, SunEdison withheld approval of power purchase agreement enhancements as a leverage tool, which further decreased our effectiveness in attracting and obtaining prospective customers.

In response to the announcement of the acquisition, and due to uncertainty regarding the closing of the acquisition, our existing or prospective customers or suppliers have or may have:

- delayed, deferred and may cease purchasing products or services from or providing products or services to us;
- delayed or deferred other decisions concerning us; or
- otherwise sought to change the terms on which they do business with us.

These such delays or changes to terms have disrupted, and may continue to disrupt our business and adversely impact our results of operations as we continue to operate as a standalone company.

Risks Related to our Business

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

Our future success depends on our ability to raise capital from third-party investors on competitive terms to help finance the deployment of our solar energy systems. We seek to minimize our cost of capital in order to maintain the price competitiveness of the electricity produced by, or the lease payments for, our solar energy systems. If we are unable to establish new investment funds when needed, or upon desirable terms, to enable our customers' access to our solar energy systems with little to no upfront cost to them, we may be unable to finance installation of our customers' systems or our cost of capital could increase, either of which would have a material adverse effect on our business, financial condition, results of operations and prospects. As of February 29, 2016, we had raised 16 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion which will enable us to install solar energy systems of total fair market value approximating $2.6 billion. As of February 29, 2016, we had remaining residential tax equity commitments to fund

approximately 55 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $241 million. As of February 29, 2016, we had entered into one C&I investment fund with a total committed capital amount of $150.0 million, however, no projects had been accepted into the investment fund as of February 29, 2016. The contract terms in certain of our investment fund documents impose conditions on our ability to draw on financing commitments from the fund investors, including if an event occurs that could reasonably be expected to have a material adverse effect on the fund or on us. If we do not satisfy such conditions due to events related to our business or a specific investment fund or developments in our industry or otherwise, and as a result we are unable to draw on existing commitments, our inability to draw on such commitments could have a material adverse effect on our business, liquidity, financial condition and prospects. In addition to our inability to draw on the investors' commitments, we may incur financial penalties for non-performance, including delays in the installation process and interconnection to the power grid of solar energy systems and other factors. Based on the terms of the investment fund agreements, we will either reimburse a

portion of the fund investor's capital or pay the fund investor a penalty fee. For the C&I investment fund, we could incur a non-performance fee of up to $3.0 million primarily due to a delay in solar energy systems being interconnected to the power grid.

To meet the capital needs of our growing business, we will need to obtain additional financing from new investors and investors with whom we currently have arrangements. If any of the financial institutions that currently provide financing decide not to invest in the future due to general market conditions, concerns about our business or prospects or any other reason, or decide to invest at levels that are inadequate to support our anticipated needs or materially change the terms under which they are willing to provide future financing, we will need to identify new financial institutions and companies to provide financing and negotiate new financing terms. In addition, the pendency of the SunEdison acquisition and the risks and uncertainties associated with it adversely affected the willingness of parties to enter into financing arrangements with us. This, combined with restrictions under the Merger Agreement on our ability to incur, assume or guarantee any indebtedness, or make any loans or advances to any other person, restricted our ability to raise additional capital during the pendency of the acquisition and our business may continue to be affected by the residual impact of these or similar factors. If we are unable to raise additional capital in a timely manner, our ability to meet our capital needs and fund future growth may be limited.

In the past, we have sometimes been unable to timely establish investment funds in accordance with our plans, due in part to the relatively limited number of investors attracted to such types of funds, competition for such capital and the complexity associated with negotiating the agreements with respect to such funds. Delays in raising financing could cause us to delay expanding in existing markets or entering into new markets and hiring additional personnel in support of our planned growth. Any future delays in capital raising could similarly cause us to delay deployment of a substantial number of solar energy systems for which we have signed power purchase agreements or leases with customers. Our future ability to obtain additional financing depends on banks' and other financing sources' continued confidence in our business model and the renewable energy industry as a whole. It could also be impacted by the liquidity needs of such financing sources themselves. We face intense competition from a variety of other companies, technologies and financing structures for such limited investment capital. If we are unable to continue to offer a competitive investment profile, we may lose access to these funds or they may only be available to us on terms that are less favorable than those received by our competitors. For example, if we experience higher customer default rates than we currently experience in our existing investment funds, this could make it more difficult or costly to attract future financing. In our experience, there are a relatively small number of investors that generate sufficient profits and possess the requisite financial sophistication that can benefit from and have significant demand for the tax benefits that our investment funds can provide. Historically, in the distributed solar energy industry, investors have typically been large financial institutions and a few large, profitable corporations. Our ability to raise investment funds is limited by the relatively small number of such investors. Any inability to secure financing could lead us to cancel planned installations, could impair our ability to accept new customers and could increase our borrowing costs, any of which would have a material adverse effect on our business, financial condition, results of operations and prospects.

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

We believe that a significant number of our customers decide to buy solar energy because they want to pay less for electricity than what is offered by the traditional utilities. However, distributed residential solar energy has yet to achieve broad market adoption.

The customer's decision to choose solar energy may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the traditional utilities or from other renewable energy sources would harm our ability to offer competitive pricing and could harm our business. The cost of electricity from traditional

utilities could decrease as a result of:

- construction of new power generation plants, including plants utilizing natural gas, nuclear, coal, renewable energy or other generation technologies;
- relief of transmission constraints that enable local centers to generate energy less expensively;
- reductions in the price of natural gas or other fuel sources;
- utility rate adjustment and customer class cost reallocation;
- energy conservation technologies and public initiatives to reduce electricity consumption;
- widespread deployment of existing or development of new or lower-cost energy storage technologies that have the ability to reduce a customer's average cost of electricity by shifting load to off-peak times; and
- development of new energy generation technologies that provide less expensive energy.

A reduction in utility electricity costs would make the purchase of electricity under our power purchase agreements or the lease of our solar energy systems less economically attractive. If the cost of energy available from traditional utilities were to decrease due to any of these reasons, or other reasons, we would be at a competitive disadvantage, we may be unable to attract new customers and our growth would be limited.

Electric utility industry policies and regulations may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for electricity from our solar energy systems.

Federal, state and local government regulations and policies concerning the electric utility industry, utility rate structures, interconnection procedures, and internal policies of electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of distributed electricity generation systems to the power grid. Policies and regulations that promote renewable energy and customer-sited energy generation have been challenged by traditional utilities and questioned by those in government and others arguing for less governmental spending and involvement in the energy market. To the extent that such views are reflected in government policy, the changes in such policies and regulations could adversely affect our results of operations, cost of capital and growth prospects.

In the United States, governments and the state public service commissions that determine utility rates continuously modify these regulations and policies. These regulations and policies could result in a significant reduction in the potential demand for electricity from our solar energy systems and could deter customers from entering into contracts with us. In addition, depending on the region, electricity generated by solar energy systems competes most effectively with the most expensive retail rates for electricity from the power grid, rather than the less expensive average price of electricity. Modifications to the utilities' peak hour pricing policies or rate design, such as to a flat rate, would make our current products less competitive with the price of electricity from the power grid. For example, the California Public Utilities Commission recently issued a decision that will transition residential rates over the next four years from a four-tiered structure to a two-tiered structure, with only a 25% differential between the two rates and a surcharge for very high energy users. It is possible that this change could have the effect of lowering the incentive for residential customers of California's large investor-owned utilities to reduce their purchases of electricity from their utility by supplying more of their own electricity from solar, and thereby reduce demand for our products. In addition, California is in the process of shifting to a time-of-use rate structure in the coming years. A shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient could make our solar energy system offerings less competitive and reduce demand for our offerings. The California Public Utilities Commission determined in January of 2016 that net metering customers taking service on the net energy metering (NEM) successor tariff will be required to take service on time-of-use rates. This transition may occur in 2016 for some of our potential customers. In addition, since we are required to obtain interconnection permission for each solar energy system from the local utility, changes in a local utility's regulations, policies or interconnection process have in the past delayed and in the future could delay or prevent the completion of our solar energy systems. This in turn has delayed and in the future could delay or prevent us from generating revenues from such solar energy systems or cause us to redeploy solar energy systems, adversely impacting our results of operations.

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our offerings or increase our costs or the prices we charge our customers. Certain jurisdictions have proposed allowing traditional utilities to assess fees on customers purchasing energy from solar energy systems or have imposed or proposed new charges or rate structures that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. For example, the California Public Utilities Commission issued a decision in July 2015 that allowed utilities to impose a minimum $10 monthly bill for residential customers, approved the concept of fixed charges and will permit the utilities to

propose such fixed charges again in 2018. A decision issued in January 2016 will allow new interconnection fees and additional nonbypassable charges to be assessed on customers taking service on California's net metering successor tariff. This will result in monthly charges being imposed on our customers in California. Additionally, certain utilities in Arizona have approved increased rates and charges for net metering customers, and others have proposed doing away with the state's renewable electricity standard carve-outs for distributed generation as well as the state's net metering program. These policy changes may negatively impact our customers and affect demand for our solar energy systems, and similar changes to net metering policies may occur in other states. It is also possible that these or other changes could be imposed on our current customers, as well as future customers. Due to the current and expected continued concentration of our solar energy systems in California, any such changes in this market would be particularly harmful to our reputation, customer relations, business, results of operations and future growth in these areas. We may be similarly adversely affected if our business becomes concentrated in other jurisdictions.

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

Federal, state and local government and regulatory bodies provide for tariff structures and incentives to various parties including owners, end users, distributors, system integrators and manufacturers of solar energy systems to promote solar energy in various forms, including rebates, tax credits and other financial incentives such as system performance payments, renewable energy credits associated with renewable energy generation, exclusion of solar energy systems from property tax assessments and net metering. We rely on these governmental and regulatory programs to finance solar energy system installations, which enables us to lower the price we charge customers for energy from, and to lease, our solar energy systems, helping to catalyze customer acceptance of solar energy with those customers as an alternative to utility-provided power. However, these programs may expire on a particular date, end when the allocated funding is exhausted or be reduced or terminated. These reductions or terminations often occur without warning. For example, the Arizona Department of Revenue recently decided that it will begin to collect property taxes in 2015 on rooftop solar energy systems such as ours. In addition, the financial value of certain incentives decreases over time. For example, the value of solar renewable energy certificates, or SRECs, in a market tends to decrease over time as the supply of SREC-producing solar energy systems installed in that market increases. If we overestimate the future value of these incentives, it could adversely impact our financial results.

The federal government currently offers a 30% investment tax credit, or the ITC, under Section 48(a) of the Internal Revenue Code for the installation of certain solar power facilities; the 30% rate continues until December 31, 2019. By statute, the ITC is scheduled to decrease to 26% for 2020, 22% for 2021 and 10% of the fair market value of a solar energy system on January 1, 2022, and the amounts that fund investors are willing to invest could decrease or we may be required to provide a larger allocation of customer payments to the fund investors as a result of this scheduled decrease. To the extent we have a reduced ability to raise investment funds as a result of this reduction, the rate of growth of installations of our residential solar energy systems could be negatively impacted. The ITC has been a significant driver of the financing supporting the adoption of residential solar energy systems in the United States and its scheduled reduction beginning in 2020, unless modified by an intervening change in law, will significantly impact the attractiveness of solar energy to these investors and could potentially harm our business.

Applicable authorities may adjust or decrease incentives from time to time or include provisions for minimum domestic content requirements or other requirements to qualify for these incentives. Reductions in, eliminations or expirations of or additional application requirements for, governmental incentives could adversely impact our results of operations and ability to compete in our industry by increasing our cost of capital, causing us to increase the prices of our energy and solar energy systems and reducing the size of our addressable market. In addition, this would adversely impact our ability to attract investment partners and to form new investment funds and our ability to offer attractive financing to prospective customers.

We rely on net metering and related policies to offer competitive pricing to our customers in all of our current markets, and changes to net metering policies may significantly reduce demand for electricity from our solar energy systems.

Our business benefits significantly from favorable net metering policies in states in which we operate. Net metering allows a homeowner to pay his or her local electric utility only for their power usage net of production from the solar energy system, transforming the conventional relationship between customers and traditional utilities. Homeowners receive credit for the energy that the solar installation generates in excess of that needed by the home to offset energy usage at times when the solar installation is not generating energy. In states that provide for net metering, the customer typically pays for the net energy used or receives a credit against future bills at the retail rate if more energy is produced by the solar installation than consumed. In some states and utility territories, customers are also reimbursed by the electric utility for net excess generation on a periodic basis.

Forty-one states, Puerto Rico, the District of Columbia, American Samoa and the U.S. Virgin Islands have adopted some form of net metering. Each of the states where we currently serve customers has adopted some form of a net metering policy.

In recent years, net metering programs have been subject to regulatory scrutiny and legislative proposals in some states, such as Arizona, California, Colorado, Hawaii, Nevada and Utah. In California, for example, after the earlier of July 1, 2017 or the date the applicable investor owned utility reaches its statutory net metering cap, customers will take service on a new net metering successor tariff. The net metering cap is measured based on the nameplate capacity of net metered systems within the applicable utility's service territory. Currently, the net metering caps for the three large investor-owned utilities are: 617 megawatts for San Diego Gas and Electric Company; 2,240 megawatts for Southern California Edison Company; and 2,409 megawatts for Pacific Gas and Electric Company. As reflected in their January 31, 2016 reports required by statute, these investor-owned utilities have approximately 12%, 35% and 22%, respectively, of capacity remaining under their respective net metering caps. The statute providing the current caps also provides that, once the new net metering rules are effective, there will be no net metering caps applied to these utilities. For the NEM successor tariff, the California Public Utilities Commission largely upheld net metering in its current form with full retail compensation for exports and rejected utility requests to impose extremely high fixed and capacity charges. The Commission did allow the utilities to impose reasonable interconnection fees and some additional charges on customers, and will require such customers to take service on time-of-use rates.

On October 12, 2015, the Hawaii Public Utilities Commission issued an order closing the Hawaiian Electric Company's net metering program to new participants and replaced this program with two new options for customers to interconnect to the utilities' electric grids, neither of which provides for compensation for exports at retail electricity rates. Solar advocates have filed suit challenging this order and seeking to enjoin its effectiveness.

In late 2015, the Nevada Public Utilities Commission voted in favor of a plan which limits export compensation to net metering customers to avoided cost rates and imposes high monthly fees on such customers. This order greatly reduced the economic benefit to Nevada customers of residential solar. Solar advocates have filed suit challenging this order. Several other states plan to revisit their net metering policies in the coming years, and the First Circuit Court's order denying the plaintiff's requested relief is currently on appeal.

If and when net metering caps in certain jurisdictions are reached while they are still in effect, the value of the credit that customers receive for net metering is significantly reduced, utility rate structures are altered, or fees are imposed on net metering customers, future customers may be unable to recognize the same level of cost savings associated with net metering that current customers enjoy. The absence of favorable net metering policies or of net metering entirely, or the imposition of new charges that only or disproportionately impact customers that use net metering would significantly limit customer demand for our solar energy systems and the electricity they generate and could adversely impact our business, results of operations and future growth. For example, shortly after expanding our operations into Nevada, the state's primary electric utility reached its net metering cap. As a result, we have suspended operations in Nevada pending revisions to the net metering available in the state.

Technical and regulatory limitations may significantly reduce our ability to sell electricity from our solar energy systems and retain employees in certain markets.

Technical and regulatory limits may curb our growth in certain key markets, which may also reduce our ability to retain employees in those markets. For example, the Federal Energy Regulatory Commission, in promulgating the first form small generator interconnection procedures, recommended limiting customer-sited intermittent generation resources, such as our solar energy systems, to a certain percentage of peak load on a given electrical feeder circuit. Similar limits have been adopted by many states as a de facto standard and could constrain our ability to market to customers in certain geographic areas where the concentration of solar installations exceeds this limit. For example, Hawaiian electric utilities have adopted certain policies that limit distributed electricity generation in parts of their service territories. In the first half of 2014, Hawaii was the second largest market in which we operated as measured

by total installations. However, despite legislative and regulatory actions to allow further distributed electricity penetration, these limitations constrained growth of distributed residential solar energy in Hawaii in the second half of 2014 and beyond, and Hawaii has become a less important market to us as a result; which in turn resulted in the loss of employees located in that market that were not willing to relocate. While a recent Hawaii Public Utilities Commission order seeks to streamline the interconnection process, and while our growth in other markets has more than offset the impact of these limitations in Hawaii, if we experienced similar or other limitations on the deployment of solar energy systems, our business, operating results and growth prospects could be materially adversely affected. Furthermore, in certain areas, we benefit from policies that allow for expedited or simplified procedures related to connecting solar energy systems to the power grid. If such procedures are changed or cease to be available, our ability to sell the electricity generated by solar energy systems we install may be adversely impacted. As adoption of solar distributed generation rises along with the commercial operation of utility scale solar generation in key markets such as California, the amount of solar energy being fed into the power grid will surpass the amount planned for relative to the amount of aggregate demand. Some traditional utilities claim that in less than five years, solar generation resources may reach a level capable of producing an over-generation situation, which may require some solar generation resources to be curtailed to maintain operation of the grid. While the prospect of such curtailment is somewhat speculative, the adverse effects of such curtailment without compensation could adversely impact our business, results of operations and future growth.

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

We have incurred operating losses since our inception. We incurred net losses of $253.3 million and $165.9 million for the years ended December 31, 2015 and 2014. We expect to continue to incur net losses from operations as we finance the expansion of our operations, expand our installation, engineering, administrative, sales and marketing staffs, and implement internal systems and infrastructure to support our growth. Failure to grow at a sufficient rate to support these investments in personnel, systems and infrastructure, have adversely impacted and in the future could adversely impact our business and results of operations. Our ability to achieve profitability depends on a number of factors, including:

- growing our customer base;
- finding investors willing to invest in our investment funds;
- maintaining and further lowering our cost of capital;
- reducing the time between system installation and interconnection to the power grid, which allows us to begin generating revenue;
- reducing the cost of components for our solar energy systems; and
- reducing our operating costs by optimizing our sales, design and installation processes and supply chain logistics.

Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future.

The vast majority of our business is conducted primarily using one channel, direct-selling.

Historically, our primary sales channel has been a direct sales model. Recently, we have opened a new retail sales channel and set up an inside sales team as new means of reaching customers. We compete against companies with experience selling solar energy systems to customers through a number of distribution channels, including homebuilders, home improvement stores, large construction, electrical and roofing companies and other third parties and companies that access customers through relationships with third parties in addition to other direct-selling companies. Our less diversified distribution channels may place us at a disadvantage with consumers who prefer to purchase products through these other distribution channels. Additionally, we are experienced in reaching customers efficiently through a direct sale model; however, due to limited experience, acquiring customers through other channels has been slow to develop, leading to less market penetration in these channels. We are also vulnerable to changes in laws related to direct marketing as regulations have limited unsolicited residential sales calls and may impose additional restrictions. If additional laws affecting direct marketing are passed in the markets in which we operate, it would take time to train our sales force to comply with such laws, and we may be exposed to fines or other penalties for violations of such laws. If we fail to compete effectively through our direct-selling efforts or are not successful in executing our strategy to sell our solar energy systems through other channels, our financial condition, results of operations and growth prospects will be adversely affected.

We are highly dependent on our ability to attract, train and retain an effective sales force.

The success of our direct-selling channel efforts depends upon the recruitment, retention and motivation of a large number of sales personnel to compensate for a high turnover rate among sales personnel, which is a common characteristic of a direct-selling business. In order to grow our business, we need to recruit, train and retain sales personnel on a continuing basis. Historically, we have recruited a large portion of our sales personnel from our sister company, Vivint, particularly in California, where a significant portion of our business is concentrated. Pursuant to a non-competition agreement entered into in connection with our initial public offering, we and Vivint have agreed not to solicit for employment any of the other's employees who primarily manage sales, installation or servicing of the other's products and services. The commitment not to solicit those employees lasts for 180 days after the employee finishes employment with us or Vivint. In the future, we will need to recruit greater numbers of our sales personnel from other sources and we may be unable to successfully do so. Sales personnel are attracted to direct-selling by

competitive earnings opportunities and so direct-sellers typically compete for sales personnel by providing a more competitive earnings opportunity than that offered by the competition. Competitors devote substantial effort to determining the effectiveness of such incentives so that they can invest in incentives that are the most cost effective or produce the best return on incentive. For example, we have historically compensated our sales personnel on a commission basis, based on the size of the solar energy systems they sell. Some sales personnel may prefer a compensation structure that also includes a salary and equity incentive component. We may need to adjust our compensation model to include such components, and these adjustments could adversely impact our operating results and financial performance.

In addition to our sales compensation model, our ability to recruit, train and retain effective sales personnel could be harmed by additional factors, including:

- the residual impact of uncertainty associated with the termination of the SunEdison acquisition or our future as a standalone company;
- any adverse publicity regarding us, our solar energy systems, our distribution channel or our industry;
- lack of interest in, or the technical failure of, our solar energy systems;
- lack of a compelling product or income opportunity that generates interest for potential new sales personnel, or perception that other product or income opportunities are more attractive;
- any negative public perception of our sales personnel and direct-selling businesses in general;
- any regulatory actions or charges against us or others in our industry;
- general economic and business conditions; and
- potential saturation or maturity levels in a given market which could negatively impact our ability to attract and retain sales personnel in such market.

We are subject to significant competition for the recruitment of sales personnel from other direct-selling companies and from other companies that sell solar energy systems in particular. Furthermore, the regional and district managers of our sales personnel are instrumental in recruiting, retaining and motivating our sales personnel. When managers have elected to leave us and join other companies, the sales personnel they supervise have often left with them. We expect to experience similar attrition in our sales personnel in the future which may impact our results of operations and growth. The impact of such attrition could be particularly acute in those jurisdictions, such as California, where contractual non-competition agreements for service providers are not enforceable or subject to significant limitations.

It is therefore continually necessary to innovate and enhance our direct-selling and service model as well as to recruit and retain new sales personnel. If we are unable to do so, our business will be adversely affected.

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

We are not regulated as a public utility in any of the markets in which we currently operate. As a result, we are not subject to the various federal, state and local standards, restrictions and regulatory requirements applicable to traditional utilities that operate transmission and distribution systems and that have an obligation to serve electric customers within a specified jurisdiction. Any federal, state, or local regulations that cause us to be treated as an electric utility, or to otherwise be subject to a similar regulatory regime of commission-approved operating tariffs, rate limitations, and related mandatory provisions, could place significant restrictions on our ability to operate our business and execute our business plan by prohibiting, restricting or otherwise regulating our sale of electricity. If we were subject to the same state or federal regulatory authorities as electric utilities in the United States or if new regulatory bodies were established to oversee our business in the United States, then our operating costs would materially increase.

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

Retail sales of electricity by non-utilities such as us face regulatory hurdles in some states and jurisdictions, including states and jurisdictions that we intend to enter where the laws and regulatory policies have not historically embraced competition to the service provided by the incumbent, vertically integrated electric utility. Some of the principal challenges pertain to whether non-customer owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives and whether third-party owned systems are eligible for net metering and the associated significant cost savings. Furthermore, in some states and utility territories third parties are limited in the way that they may deliver solar to their customers. In jurisdictions such as Arizona, South Carolina and Utah and in Los Angeles,

California, laws have been interpreted to prohibit the sale of electricity pursuant to our standard power purchase agreement, in some cases, leading residential solar energy system providers to use leases in lieu of power purchase agreements. Changes in law, reductions in, eliminations of or additional application requirements for, these benefits could reduce demand for our systems, adversely impact our access to capital and could cause us to increase the price we charge our customers for energy.

If the Internal Revenue Service or the U.S. Treasury Department makes a determination that the fair market value of our solar energy systems is materially lower than what we have reported in our fund tax returns or cash grant applications, we may have to pay significant amounts to our investment funds, to our fund investors and/or the U.S. government. Such determinations could have a material adverse effect on our business, financial condition and prospects.

We report in our fund tax returns and we and our fund investors claim the ITC based on the fair market value of our solar energy systems. While we are not aware of any audits or results of audits related to our appraisals or fair market value determinations of any of our investment funds by the Internal Revenue Service, or IRS, scrutiny with respect to fair market value determinations has increased industry-wide in recent years. If as part of an examination the IRS were to review the fair market value that we used to establish our basis for claiming ITCs and determine that the ITCs previously claimed should be reduced, we would owe certain of our investment funds or our fund investors an amount equal to 30% of the investor's share of the difference between the fair market value used to establish our basis for claiming ITCs and the adjusted fair market value determined by the IRS, plus any costs and expenses associated with a challenge to that fair market value, plus a gross up to pay for additional taxes. We could also be subject to tax liabilities, including interest and penalties based on our share of claimed ITCs. To date, we have not been required to make such payments under any of our investment funds.

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

Substantially all of our solar energy systems installed to date have been eligible for ITCs or U.S. Treasury grants, as well as accelerated depreciation benefits. We have relied on, and will continue to rely on, financing structures that monetize a substantial portion of those benefits and provide financing for our solar energy systems. If, for any reason, we were unable to continue to monetize those benefits through these arrangements, we may be unable to provide solar energy systems for new customers and maintain solar energy systems for new and existing customers on an economically viable basis. The availability of this tax-advantaged financing depends upon many factors, including:

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

Solar energy system owners are currently allowed to claim the ITC that is equal to 30% of the system's eligible tax basis, which is generally the fair market value of the system. By statute, the ITC is scheduled to decrease to 26% for 2020, 22% for 2021 and 10% on January 1, 2022. Moreover, potential fund investors must remain satisfied that the structures we offer qualify for the tax benefits associated with solar energy systems available to these investors, which depends both on the investors' assessment of tax law and the absence of any unfavorable interpretations of that law. Changes in existing law and interpretations by the IRS and the courts could reduce the willingness of fund investors to invest in funds associated with these solar energy system investments. We cannot assure you that this type of financing will continue to be available to us. Alternatively, new investment fund structures or other financing mechanisms may become available, and if we are unable to take advantage of these fund structures and financing mechanisms it may place us at a competitive disadvantage. If, for any reason, we are unable to finance solar energy systems through tax-advantaged structures or if we are unable to realize or monetize depreciation benefits, or if we are otherwise unable to structure investment funds in ways that are both attractive to investors and allow us to provide desirable pricing to customers, we may no longer be able to provide solar energy systems to new customers on an economically viable basis. This would have a material adverse effect on our business, financial condition, results of operations and prospects.

Rising interest rates could adversely impact our business.

Rising interest rates could have an adverse impact on our business by increasing our cost of capital. The majority of our cash flows to date have been from customer contracts that have been partially monetized under various investment fund structures. One of the components of this monetization is the present value of the payment streams from the customers who enter into these contracts. If the rate of return required by the fund investor rises as a result of a rise in interest rates, the present value of the customer payment stream and the total value that we are able to derive from monetizing the payment stream will each be reduced. Interest rates are at historically low levels. It is likely that interest rates will rise in 2016, which would cause our costs of capital to increase.

Our investment funds contain arrangements which provide for priority distributions to fund investors until they receive their targeted rates of return. In addition, under the terms of certain of our investment funds, we may be required to make payments to the fund investors if certain tax benefits that are allocated to such fund investors are not realized as expected. Our financial condition may be adversely impacted if a fund is required to make these priority distributions for a longer period than anticipated to achieve the fund investors' targeted rates of return or if we are required to make any tax-related payments.

Our investment funds contain terms that contractually require the investment funds to make priority distributions to the fund investor, to the extent cash is available, until it achieves its targeted rate of return. The amounts of potential future distributions under these arrangements depends on the amounts and timing of receipt of cash flows into the investment fund, almost all of which is generated from customer payments related to solar energy systems that have been previously purchased (or leased, as applicable) by such fund. If such cash flows are lower than expected, the priority distributions to the investor may continue for longer than initially anticipated. Additionally, certain of our investment funds require that, under certain circumstances, we forego distributions from the fund that we are otherwise contractually entitled to, or make capital contributions to the fund, so that such distributions owed to us, or additional capital contributions made by us, can be redirected to the fund investor such that it achieves the targeted return. For example, as of December 31, 2015, we accrued an estimated $5.2 million capital contribution to reimburse a fund investor a portion of its capital contribution in order to true-up the investor's expected rate of return primarily due to a delay in solar energy systems being interconnected to the power grid and other factors.

Our fund investors also expect returns partially in the form of tax benefits and, to enable such returns, our investment funds contain terms that contractually require us to make payments to the funds that are then used to make payments to the fund investor in certain circumstances so that the fund investor receives value equivalent to the tax benefits it expected to receive when entering into the transaction. The amounts of potential tax payments under these arrangements depend on the tax benefits that accrue to such investors from the funds' activities.

Due to uncertainties associated with estimating the timing and amounts of these cash distributions and allocations of tax benefits to such investors, we cannot determine the potential maximum future impact on our cash flows or payments that we could have to make under these arrangements. We may agree to similar terms in the future if market conditions require it. Any significant payments that we may be required to make or distributions to us that are reduced or diverted as a result of these arrangements could adversely affect our financial condition.

We may incur substantially more debt or take other actions that could restrict our ability to pursue our business strategies.

In September 2014, we entered into an aggregation credit facility, which was subsequently amended in February 2015 and November 2015, pursuant to which we may borrow up to an aggregate of $375.0 million and, upon the satisfaction of certain conditions and the approval of the lenders, up to an aggregate of $175.0 million in additional borrowings. In addition, in March 2015, we entered into a revolving credit facility pursuant to which we may borrow up to an aggregate of $131.0 million. In May 2015, certain conditions were satisfied and the aggregate amount of available revolver borrowings was increased to $150.0 million. These credit facilities restrict our ability to dispose of assets, incur indebtedness, incur liens, pay dividends or make other distributions to holders of our capital stock, repurchase our capital stock, make specified investments or engage in transactions with our affiliates. In addition, we do not have full access to the cash and cash equivalents held in our investments funds until distributed per the terms of the arrangements. We and our subsidiaries may incur substantial additional debt in the future and any debt instrument we enter into in the future may contain similar, or more onerous, restrictions. These restrictions could inhibit our ability to pursue our business strategies. Furthermore, if we default on one of our debt instruments, and such event of default is not cured or waived, the lenders could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross acceleration under

other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default.

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

Our business is concentrated in certain markets, putting us at risk of region specific disruptions.

As of December 31, 2015, approximately 39% of our cumulative installations and total offices were located in California. In addition, we expect future growth to occur in California, which could further concentrate our customer base and operational infrastructure. Accordingly, our business and results of operations are particularly susceptible to adverse economic, regulatory, political, weather and other conditions in California and in other markets that may become similarly concentrated.

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

Since our formation in 2011, we have focused our efforts exclusively on the sales, financing, engineering, installation, maintenance and monitoring of solar energy systems for residential customers. We may be unsuccessful in significantly broadening our customer base through installation of solar energy systems within our current markets or in new markets we may enter. Our limited operating history, combined with the rapidly evolving and competitive nature of our industry, may not provide an adequate basis for you to evaluate our operating and financial results and business prospects. In addition, we have limited insight into emerging trends that may adversely impact our business, prospects and operating results.

Additionally, due to our limited operating history, we do not have empirical evidence of the effect of our systems on the resale value of our customers' houses. Due to the length of our customer contracts, the system deployed on a customer's roof may be outdated prior to the expiration of the term of the customer contract reducing the likelihood of renewal of our contracts at the end of the 20-year term, and possibly increasing the occurrence of defaults. This could have an adverse effect on our business, financial condition, results of operations and cash flow. As a result, our limited operating history may impair our ability to accurately forecast our future performance and to invest accordingly.

We have identified a material weakness in our internal control over financial reporting relating to inadequate financial statement preparation and review procedures in connection with the preparation of our consolidated financial statements that resulted in the restatement of certain of our financial statements, and we may identify material weaknesses in the future.

In connection with the preparation, audits and interim reviews of our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness in internal control over financial reporting. Under standards established by the Public Company Accounting Oversight Board of the United States, a material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We previously reported a material weakness in internal control over financial reporting for the year ended December 31, 2014. This material weakness has not been fully remediated and as a result, for the year ended December 31, 2015, we continued to have deficiencies in our internal controls including those associated with the HLBV method of attributing net income or loss to non-controlling interests and redeemable non-controlling interests and with our financial statement close process.

The nature of our investment funds increases the complexity of our accounting for the allocation of net income (loss) between our stockholders and non-controlling interests under the HLBV method and the calculation of our tax provision. As we enter into additional investment funds, which may have contractual provisions different from those of our existing funds, the calculation under the HLBV method and the calculation of our tax provision could become increasingly complicated. This additional complexity could increase the chance that we experience additional errors in the future, particularly because we have a material weakness in internal controls. In addition, our need to devote our resources to addressing this complexity could delay or prolong our remediation efforts and thereby prolong the existence of the material weakness.

We continue to take steps to remediate the underlying causes of the material weakness that was reported for the year ended December 31, 2014. We have hired a number of additional financial, accounting and tax personnel. In January 2015, we hired a director of internal audit to assist us in implementing and improving our existing internal controls. In February 2015, we hired a chief information officer to assist us in improving our underlying information technology systems and to decrease our reliance on manual processes. We continue to engage third-party consultants to provide

support over our accounting and tax processes to assist us with our evaluation of complex technical accounting matters. We continue to engage consultants to advise us on making further improvements to our internal controls over financial reporting. We believe that these additional resources will enable us to broaden the scope and quality of our controls relating to the oversight and review of financial statements and our application of relevant accounting policies. Furthermore, we continue to implement and improve systems to automate certain financial reporting processes and to improve information accuracy. These remediation efforts are still in process and have not yet been completed. Because of this material weakness, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

The actions that we are taking are subject to ongoing senior management review as well as audit committee oversight. We are working diligently on this remediation process; however, we cannot estimate how long it will take to remediate this material weakness. In addition, the remediation steps we have taken, are taking and expect to take may not effectively remediate the material weakness, in which case our internal control over financial reporting would continue to be ineffective. We cannot guarantee that we will be able to complete our remedial actions successfully. Even if we are able to complete these actions successfully, these measures may not adequately address our material weakness. In addition, it is possible that we will discover additional material weaknesses in our internal control over financial reporting or that our existing material weakness will result in additional errors in or restatements of our financial statements.

If in future periods we determine that this material weakness has not been remediated or we identify other material weaknesses in internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective, which could result in the loss of investor confidence. In addition, to date, the audit of our consolidated financial statements by our independent registered public accounting firm has included a consideration of internal control over financial reporting as a basis of designing their audit procedures, but not for the purpose of expressing an opinion on the effectiveness of our internal controls over financial reporting. When we cease to be an emerging growth company we will be required to have our independent registered accounting firm perform such an evaluation, and additional material weaknesses or other control deficiencies may be identified.

If we are unable to successfully remediate our current material weakness or avoid or remediate any future material weakness, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

Expansion into new markets could be costly and time-consuming. Historically, we have only provided our offerings to residential customers, which could put us at a disadvantage relative to companies who also compete in other markets.

We have historically only provided our offerings to residential customers. We compete with companies who sell solar energy systems in the commercial, industrial and government markets, in addition to the residential market. While we have recently entered the commercial and industrial market and we have contracts in place with commercial off-takers, no projects have been initiated as of December 31, 2015. The development cycle of these projects typically has a longer time horizon than the development of residential solar energy systems due to complexities associated with significantly larger system sizes and installations. The project approval process by project customers and our C&I fund investor has been delayed as a result of uncertainty related to the pending acquisition of our company and we may face continued delays following the termination of the Merger Agreement. While we believe that in the future we may have opportunities to expand our operations into other markets, there are no assurances that our design and installation systems will work for non-residential customers or that we will be able to compete successfully with companies with historical presences in such markets or we may not realize the anticipated benefits of entering such markets, and entering new markets has numerous risks, including the following:

- incurring significant costs if we are required to adapt our current or develop new design and installation processes for use in non-residential applications;
- diversion of our management and employees from our core residential business;
- difficulty adapting our current or developing new marketing strategies and sales channels to non-residential customers;
- inability to obtain key customers, brand recognition and market share and compete successfully with companies with historical presences in such markets; and
- inability to achieve the financial and strategic goals for such market.

If we are unable to successfully compete in the commercial and industrial market, our operating results and growth prospects could be materially adversely affected. Additionally, there is intense competition in the residential solar energy market in the markets in which we operate. As new entrants continue to enter into these markets, we may be unable to gain or maintain market share and we may be unable to compete with companies that earn revenue in both the residential market and non-residential markets.

We face competition from traditional regulated electric utilities, from less-regulated third party energy service providers and from new renewable energy companies.

The solar energy and renewable energy industries are both highly competitive and continually evolving as participants strive to distinguish themselves within their markets and compete with large traditional utilities. We believe that our

primary competitors are the traditional utilities that supply electricity to our potential customers. Traditional utilities generally have substantially greater financial, technical, operational and other resources than we do. As a result, these competitors may be able to devote more resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. Traditional utilities could also offer other value-added products or services that could help them to compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity is non-solar, which may allow utilities to sell electricity more cheaply than electricity generated by our solar energy systems.

We also compete with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. These energy service companies are able to offer customers electricity supply-only solutions that are competitive with our solar energy system options on both price and usage of renewable energy technology while avoiding the long-term agreements and physical installations that our current fund-financed business model requires. This may limit our ability to attract new customers, particularly those who wish to avoid long-term contracts or have an aesthetic or other objection to putting solar panels on their roofs.

We also compete with solar companies with business models that are similar to ours. In addition, we compete with solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations that acquire customers and then subcontract out the installation of solar energy systems, from installation businesses that seek financing from external parties, from large construction companies and utilities, and increasingly from sophisticated electrical and roofing companies. Some of these competitors specialize in the residential solar energy market, and some may provide energy at lower costs than we do. Additionally, some of our competitors may offer their products through sales channels that they have more fully developed, such as retail sales. Further, some of our competitors are integrating vertically in order to ensure supply and to control costs. Many of our competitors also have significant brand name recognition and have extensive knowledge of our target markets. For us to remain competitive, we must distinguish ourselves from our competitors by offering an integrated approach that successfully competes with each level of products and services offered by our competitors at various points in the value chain. If our competitors develop an integrated approach similar to ours including sales, financing, engineering, manufacturing, installation, maintenance and monitoring services, this will reduce our marketplace differentiation.

As the solar industry grows and evolves, we will also face new competitors who are not currently in the market. Our industry is characterized by low technological barriers to entry and well-capitalized companies could choose to enter the market and compete with us. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors will limit our growth and will have a material adverse effect on our business and prospects.

Developments in alternative technologies or improvements in distributed solar energy generation may materially adversely affect demand for our offerings.

Significant developments in alternative technologies, such as advances in other forms of distributed solar power generation, storage solutions such as batteries, the widespread use or adoption of fuel cells for residential or commercial properties or improvements in other forms of centralized power production may materially and adversely affect our business and prospects in ways we do not currently anticipate. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay deployment of our solar energy systems, which could result in product obsolescence, the loss of competitiveness of our systems, decreased revenue and a loss of market share to competitors.

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

To support our growth, we need to hire, train, deploy, manage and retain a substantial number of skilled installers and electricians in the relevant markets. Competition for qualified personnel in our industry has increased substantially and we expect it to continue to do so, particularly for skilled electricians and other personnel involved in the installation of solar energy systems. We also compete with the homebuilding and construction industries for skilled labor. As these industries seek to hire additional workers, our cost of labor may increase. Companies with whom we compete to hire installers may offer compensation or incentive plans that certain installers may view as more favorable. We periodically assess the compensation plans and policies for our service providers, including our installers and electricians, and, if deemed necessary, may decide to revise those plans and policies. Our installers and electricians may not react well to any such revisions, which in turn could adversely affect retention, motivation and productivity.

Furthermore, trained installers are typically able to more efficiently install solar energy systems. Shortages of skilled labor could significantly delay installations or otherwise increase our costs. While we do not currently have any unionized employees, we have expanded, and may continue to expand, into areas such as the Northeast, where labor unions are more prevalent. The unionization of our labor force could also increase our labor costs. In addition, a

significant portion of our business has been concentrated in states such as California, where market conditions are particularly favorable to distributed solar energy generation. We have experienced and may in the future experience greater than expected turnover in our installers in those jurisdictions which would adversely impact the geographic mix of new solar energy system installations.

Because we are a licensed electrical contractor in every jurisdiction in which we operate, we are required to employ licensed electricians. As we expand into new markets, we are required to hire and/or contract with seasoned licensed electricians in order for us to qualify for the requisite state and local licenses. Because of the high demand for these seasoned licensed electricians, these individuals currently or in the future may demand greater compensation. In addition, our inability to attract and retain these qualifying electricians may adversely impact our ability to continue operations in current markets or expand into new areas.

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

We depend on a limited number of suppliers of solar energy system components and technologies to adequately meet anticipated demand for our solar energy systems. Due to the limited number of suppliers in our industry, the acquisition of any of these suppliers by a competitor or any shortage, delay, price change, imposition of tariffs or duties or other limitation in our ability to obtain components or technologies we use could result in sales and installation delays, cancellations and loss of market share.

We purchase solar panels, inverters and other system components from a limited number of suppliers, making us susceptible to quality issues, shortages and price changes. In 2015, Trina Solar Limited, Yingli Green Energy Americas, Inc. and JinkoSolar Holding Co., Ltd. accounted for substantially all of our solar photovoltaic module purchases and Enphase Energy, Inc. and SolarEdge Technologies Inc. accounted for substantially all of our inverter purchases. If we fail to develop, maintain and expand our relationships with these or other suppliers, our ability to adequately meet anticipated demand for our solar energy systems may be adversely affected, or we may only be able to offer our systems at higher costs or after delays. If one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, is unable to increase production as industry demand increases or is otherwise unable to allocate sufficient production to us, it may be difficult to quickly identify alternative suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. There are a limited number of suppliers of solar energy system components and technologies. While we believe there are other sources of supply for these products available, transitioning to a new supplier may result in additional costs and delays in acquiring our solar products and deploying our systems. These issues could harm our business or financial performance.

In addition, the acquisition of a component supplier or technology provider by one of our competitors could limit our access to such components or technologies and require significant redesigns of our solar energy systems or installation procedures and have a material adverse effect on our business. For example, one of our competitors acquired Zep Solar, Inc., or Zep, in 2013. Zep sold us virtually all of the racking systems used in our hardware in 2013, and the resulting limitation in our ability to acquire Zep products required us to redesign certain aspects of our systems to accommodate alternative racking hardware. In addition, some of our investment funds require the use of designated equipment, and our inability to obtain any such required equipment could limit our ability to finance solar energy systems that we intend to place in those funds.

There have also been periods of industry-wide shortages of key components, including solar panels, in times of rapid industry growth. The manufacturing infrastructure for some of these components has a long lead-time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. The solar industry is currently experiencing rapid growth and, as a result, shortages of key components, including solar panels, may be more likely to occur, which in turn may result in price increases for such components. Even if industry-wide shortages do not occur, suppliers may decide to allocate key components with high demand or insufficient production capacity to more profitable customers, customers with long-term supply agreements or customers other than us and our supply of such components may be reduced as a result.

Historically, we purchased the components for our solar energy systems on an as-needed basis and did not operate under long-term supply agreements. Recently, we have entered into multi-year agreements with certain of our major suppliers. These agreements are denominated in U.S. dollars. Since our revenue is also generated in U.S. dollars we are mostly insulated from currency fluctuations. However, since our suppliers often incur a significant amount of their costs by purchasing raw materials and generating operating expenses in foreign currencies, if the value of the U.S. dollar depreciates significantly or for a prolonged period of time against these other currencies this may cause our suppliers to raise the prices they charge us, which could harm our financial results. Since we purchase almost all of the solar photovoltaic modules we use from China, we are particularly exposed to exchange rate risk from increases in the

value of the Chinese Renminbi. In addition, the U.S. government has imposed tariffs on solar cells produced and assembled in China and Taiwan. These tariffs, and any tariffs or duties, or shortages, delays, price changes or other limitation in our ability to obtain components or technologies we use could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand. Further, certain of these multi-year agreements require us to make minimum volume purchases on a quarterly basis. As of December 31, 2015, we have met these minimum purchase requirements. However, if we fail to meet such minimum purchases in the future, we may be required to make additional payments or breach our contracts, which could adversely affect our results of operations and damage our relationships with these suppliers.

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

Our quarterly and annual operating results are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our recent growth rates and thus may not be readily apparent from our historical operating results and may be difficult to predict. For example, the amount of revenue we recognize in a given period from our customer contracts is dependent in part on the amount of energy generated by solar energy systems under such contracts. As a result,

revenue derived from power purchase agreements is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather, as for example during the winter months in the Northeastern United States. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. As such, our past quarterly operating results may not be good indicators of future performance.

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

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

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

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

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the price we charge for electricity and customer adoption of solar energy. According to industry experts, solar panel and raw material prices are not expected to continue to decline at the same rate as they have over the past several years. In addition, growth in the solar industry and the resulting increase in demand for solar panels and the raw materials necessary to manufacture them may also put upward pressure on prices. These resulting prices could slow our growth and cause our financial results to suffer. In addition, in the past we have purchased virtually all of the solar panels used in our solar energy systems from manufacturers based in China which have benefited from favorable governmental policies by the Chinese government. If this governmental support were to decrease or be eliminated, our ability to purchase these products on competitive terms or to access specialized technologies from China could be restricted.

Even if this support were to continue, the U.S. government could impose additional tariffs on solar cells manufactured in China. In 2014, the U.S. government broadened its investigation of Chinese pricing practices in this area to include solar panels and modules produced in China containing solar cells manufactured in other countries. In July 2015, the U.S. government announced antidumping duties ranging from 9.67% to 238.95% on imports of the majority of solar panels made in China, and, in December 2014, rates ranging from 11.5% to 27.6% on imported solar cells made in Taiwan. Countervailing duties ranging from 15.43% to 49.8% for Chinese modules have also been announced, and in July 2015 were set at 20.94% for most Chinese modules. In January 2015, the antidumping duties were confirmed by a determination of the U.S. International Trade Commission that material harm to the U.S. solar industry had

occurred. These combined tariffs would make such solar cells less competitively priced in the United States, and the Chinese and Taiwanese manufacturers may choose to limit the amount of solar equipment they sell into the United States. As a result, it may be easier for solar cell manufacturers located outside of China or Taiwan to increase the prices of the solar cells they sell into the United States. If we are required to pay higher prices, accept less favorable terms or purchase solar panels or other system components from alternative, higher-priced sources, our financial results will be adversely affected.

The residual value of our solar energy systems at the end of the associated term of the lease or power purchase agreement may be lower than projected today and adversely affect our financial performance and valuation.

We intend to amortize the costs of our solar energy systems over a 30-year estimated useful life, which exceeds the period of the component warranties and the corresponding payment streams from our contracts with our customers. If we incur repair and maintenance costs on these systems after the warranties have expired, and if they then fail or malfunction, we will be liable for the expense of repairing these systems without a chance of recovery from our suppliers. We are also contractually obligated to remove, store and reinstall the solar energy systems for a nominal fee if customers need to replace or repair their roofs. The nominal fee is market standard; however, it may not cover our costs to remove, store and reinstall the solar energy systems. In addition, we typically bear the cost of removing the solar energy systems at the end of the term of the customer contract if the customer does not renew his or her contract at the end of its term. Furthermore, it is difficult to predict how future environmental regulations may affect the costs associated with the removal, disposal or recycling of our solar energy systems. If the residual value of the systems is less than we expect at the end of the customer contract, after giving effect to any associated removal and redeployment costs, we may be required to accelerate all or some of the remaining unamortized costs. This could materially impair our future operating results and estimated retained value.

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

We are a licensed contractor in every market we service and we are responsible for every customer installation. We are the general contractor, electrician, construction manager and installer for all our solar energy systems. We may be liable to customers for any damage we cause to their home, belongings or property during the installation of our systems. For example, we penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of installation of solar energy systems. In addition, because the solar energy systems we deploy are high-voltage energy systems, we may incur liability for the failure to comply with electrical standards and manufacturer recommendations. Furthermore, prior to obtaining permission to operate our solar energy systems, the systems must pass various inspections. Any delay in passing, or inability to pass, such inspections, would adversely affect our results of operations. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected results or cover our costs for that project.

In addition, the installation of solar energy systems is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building, fire and electrical codes, safety, environmental protection, utility interconnection and metering, and related matters. We also rely on certain of our employees to maintain professional licenses in many of the jurisdictions in which we operate, and our failure to employ properly licensed personnel could adversely affect our licensing status in those jurisdictions. It is difficult and costly to track the requirements of every authority having jurisdiction over our operations and our solar energy systems. Any new government regulations or utility policies pertaining to our systems, or changes to existing government regulations or utility policies pertaining to our systems, may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our systems.

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

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems and at potentially high temperatures. The evaluation and modification of buildings as

part of the installation process requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead, mold or other materials known or believed to be hazardous to human health. We also maintain a fleet of nearly 900 trucks and other vehicles to support our installers and operations. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, the U.S. Department of Transportation, or DOT, and equivalent state laws. Changes to OSHA, DOT or state requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures or suspend or limit operations. While we have not experienced a high level of injuries to date, we could be exposed to increased liability in the future. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

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

We agree to maintain the solar energy systems installed on our customers' homes during the length of the term of our customer contracts, which is typically 20 years. We are exposed to any liabilities arising from the systems' failure to operate properly and are generally under an obligation to ensure that each system remains in good condition during the term of the agreement. As part of our operations and maintenance work, we provide a pass-through of the inverter and panel manufacturers' warranty coverage to our customers, which generally range from 10 to 25 years. One or more of these third-party manufacturers could cease operations and no longer honor these warranties, leaving us to fulfill these potential obligations to our customers or to our fund investors without underlying warranty coverage. We, either ourselves or through our investment funds, bear the cost of such major equipment. Even if the investment fund bears the direct expense of such replacement equipment, we could suffer financial losses associated with a loss of production from the solar energy systems.

Beginning in 2014, we began structuring some customer contracts as solar energy system leases. To be competitive in the market and to comply with the requirements of jurisdictions where we offer leases, our solar energy system leases contain a performance guarantee in favor of the lessee. Leases with performance guarantees require us to refund money to the lessee if the solar energy system fails to generate a stated minimum amount of electricity in a 12-month period. We may also suffer financial losses associated with such refunds if significant performance guarantee payments are triggered.

Our failure to accurately predict future liabilities related to material quality or performance expenses could result in unexpected volatility in our financial condition. Because of the limited operating history of our solar energy systems, we have been required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of our solar energy systems. We have made these assumptions based on the historic performance of similar systems or on accelerated life cycle testing. Our assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial expense to repair or replace defective solar energy systems in the future or to compensate customers for systems that do not meet their performance guarantees. Equipment defects, serial defects or operational deficiencies also would reduce our revenue from customer contracts because the customer payments under such agreements are dependent on system production or would require us to make refunds under performance guarantees. Any widespread product failures or operating deficiencies may damage our market reputation and adversely impact our financial results.

We are responsible for providing maintenance, repair and billing on solar energy systems that are owned or leased by our investment funds on a fixed fee basis, and our financial performance could be adversely affected if our cost of providing such services is higher than we project.

We typically provide a workmanship warranty for periods of five to 20 years to our investment funds for every system we sell to them. We are also generally contractually obligated to cover the cost of maintenance, repair and billing on any solar energy systems that we sell or lease to our investment funds. We are subject to a maintenance services agreement under which we are required to operate and maintain the system, and perform customer billing services for a fixed fee that is calculated to cover our future expected maintenance and servicing costs of the solar energy systems in each investment fund over the term of the lease or power purchase agreement with the covered customers. If our solar energy systems require an above-average amount of repairs or if the cost of repairing systems were higher than our estimate, we would need to perform such repairs without additional compensation. If our solar energy systems, a majority of which are located in California, are damaged in the event of a natural disaster beyond our control, such as an earthquake, tsunami or hurricane, losses could be outside the scope of insurance policies or exceed insurance policy limits, and we could incur unforeseen costs that could harm our business and financial condition. We may also incur

significant costs for taking other actions in preparation for, or in reaction to, such events. When required to do so under the terms of a particular investment fund, we purchase property and business interruption insurance with industry standard coverage and limits approved by the investor's third-party insurance advisors to hedge against such risk, but such coverage may not cover our losses, and we have not acquired such coverage for all of our funds.

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

If one of our solar energy systems injured someone, we could be exposed to product liability claims. In addition, it is possible that our products could injure our customer or third parties, or that our products could cause property damage as a result of product malfunctions, defects, improper installation, fire or other causes. We rely on our general liability insurance to cover product liability claims. Any product liability claim we face could be expensive to defend and divert management's attention. The successful assertion of product liability claims against us could result in potentially significant monetary damages, penalties or fines, subject us to adverse publicity, damage our reputation and competitive position and adversely affect sales of our systems and other products. In addition, product liability claims, injuries, defects or other problems experienced by other companies in the residential solar industry could lead to unfavorable market conditions to the industry as a whole, and may have an adverse effect on our ability to attract new customers, thus affecting our growth and financial performance.

Failure by our component suppliers to use ethical business practices and comply with applicable laws and regulations may adversely affect our business.

We do not control our suppliers or their business practices. Accordingly, we cannot guarantee that they follow ethical business practices such as fair wage practices and compliance with environmental, safety and other local laws. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations. Violation of labor or other laws by our suppliers or the divergence of a supplier's labor or other practices from those generally accepted as ethical in the United States or other markets in which we do business could also attract negative publicity for us and harm our business.

Damage to our brand and reputation, or change or loss of use of our brand, would harm our business and results of operations.

We depend significantly on our reputation for high-quality products, best-in-class customer service and the brand name "Vivint Solar" to attract new customers and grow our business. If we fail to continue to deliver our solar energy systems within the planned timelines, if our offerings do not perform as anticipated or if we damage any of our customers' properties or delay or cancel projects, our brand and reputation could be significantly impaired. Future technical improvements may allow us to offer lower prices or offer new technology to new customers; however, technical limitations in our current solar energy systems may prevent us from offering such lower prices or new technology to our existing customers. The inability of our current customers to benefit from technological improvements could cause our existing customers to lower the value they perceive our existing products offer and impair our brand and reputation.

We have focused particular attention on growing our direct sales force, leading us in some instances to take on candidates who we later determined did not meet our standards. In addition, given our direct sales business model and the sheer number of interactions our sales and other personnel have with customers and potential customers, it is inevitable that some customers' and potential customers' interactions with our company will be perceived as less than satisfactory. This has led to instances of customer complaints, some of which have affected our digital footprint on rating websites such as that for Yelp and the Better Business Bureau. If we cannot manage our hiring and training processes to avoid or minimize to the extent possible, these issues, our reputation may be harmed and our ability to attract new customers would suffer.

Given our past relationship with our sister company Vivint and the similarity in our names, customers may associate us with any problems experienced with Vivint, such as complaints with the Better Business Bureau. Because we have no control over Vivint, we may not be able to take remedial action to cure any issues Vivint has with its customers, and our brand and reputation may be harmed if we are mistaken for the same company.

In addition, if we were to no longer use, lose the right to continue to use, or if others use, the "Vivint Solar" brand, we could lose recognition in the marketplace among customers, suppliers and partners, which could affect our growth and financial performance, and would require financial and other investment, and management attention in new branding, which may not be as successful.

Marketplace confidence in our liquidity and long-term business prospects is important for building and maintaining our business.

Our financial condition, operating results and business prospects may suffer materially if we are unable to establish and maintain confidence about our liquidity and business prospects among consumers and within our industry. Our solar energy systems require ongoing maintenance and support. If we were to reduce operations, even years from now,

buyers of our systems from years earlier might have difficulty in having us repair or service our systems, which remain our responsibility under the terms of our customer contracts. As a result, consumers may be less likely to purchase our solar energy systems now if they are uncertain that our business will succeed or that our operations will continue for many years. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed. Accordingly, in order to build and maintain our business, we must maintain confidence among customers, suppliers and other parties in our liquidity and long-term business prospects. We may not succeed in our efforts to build this confidence.

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

We have experienced significant growth in recent periods with the cumulative capacity of our solar energy systems growing from 72.8 megawatts as of December 31, 2013 to 458.9 megawatts as of December 31, 2015, and we intend to continue to expand our business significantly within existing markets and in a number of new locations in the future. This growth has placed, and any future growth may place, a significant strain on our management, operational and financial infrastructure. In particular, we will be required to expand, train and manage our growing employee base and scale and otherwise improve our IT infrastructure in tandem with that headcount growth. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third parties and attract new customers and suppliers, as well as manage multiple geographic locations.

In addition, our current and planned operations, personnel, IT and other systems and procedures might be inadequate to support our future growth and may require us to make additional unanticipated investments in our infrastructure. Our success and ability to further scale our business will depend, in part, on our ability to manage these changes in a cost-effective and efficient manner.

If we cannot manage our growth, we may be unable to meet our or industry analysts' expectations regarding growth, opportunity and financial targets, take advantage of market opportunities, execute our business strategies or respond to competitive pressures. This could also result in declines in quality or customer satisfaction, increased costs, difficulties in introducing new offerings or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

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

We acquired Solmetric Corporation in January 2014 and in the future we may acquire additional companies, project pipelines, products or technologies or enter into joint ventures or other strategic initiatives. We may not realize the anticipated benefits of this acquisition or any other future acquisition, and any acquisition has numerous risks. These risks include the following:

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

Mergers and acquisitions of companies are inherently risky, and if we do not complete the integration of acquired businesses successfully and in a timely manner, we may not realize the anticipated benefits of the acquisitions to the extent anticipated, which could adversely affect our business, financial condition or results of operations.

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

We depend on our experienced management team, and the loss of one or more key executives could have a negative impact on our business. In particular, we are dependent on the services of our chief executive officer, Greg Butterfield. We also depend on our ability to retain and motivate key employees and attract qualified new employees. None of our key executives are bound by employment agreements for any specific term and we do not maintain key person life insurance policies on any of our executive officers. In the year ended December 31, 2015, one-third of the outstanding options to purchase shares of our common stock granted to our key executives and other employees under our 2013 Omnibus Incentive Plan vested. In addition, one-third of the options remained outstanding and will vest if 313 Acquisition LLC receives a return on its invested capital at a pre-established threshold, subject to the employee's continued service through the receipt of such return. While our initial public offering did not itself constitute an event that would trigger vesting, subsequent sales by 313 Acquisition LLC of our common stock could result in the vesting of such options. As a result, the retention incentives associated with these options could lapse for all employees holding these options under our 2013 Omnibus Incentive Plan at the same time or times. This decrease in retention incentive could cause significant turnover after these options vest. We may be unable to replace key members of our management team and key employees if we lose their services. Integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to attract and retain sufficient managerial personnel who have critical industry experience and relationships could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the New York Stock Exchange, or NYSE, and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns which could harm our business and operating results. If in the future, we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the Securities and Exchange Commission, or the SEC, or other regulatory authorities, which would require additional financial and management resources.

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

We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Third parties, including our competitors, may own patents or other intellectual property rights that cover aspects of our technology or business methods. Such parties may claim we have misappropriated, misused, violated or infringed

third party intellectual property rights, and, if we gain greater recognition in the market, we face a higher risk of being the subject of claims that we have violated others' intellectual property rights. Any claim that we violate a third party's intellectual property rights, whether with or without merit, could be time-consuming, expensive to settle or litigate and could divert our management's attention and other resources. If we do not successfully settle or defend an intellectual property claim, we could be liable for significant monetary damages and could be prohibited from continuing to use certain technology, business methods, content or brands. To avoid a prohibition, we could seek a license from third parties, which could require us to pay significant royalties, increasing our operating expenses. If a license is not available at all or not available on reasonable terms, we may be required to develop or license a non-violating alternative, either of which could require significant effort and expense. If we cannot license or develop a non-violating alternative, we would be forced to limit or stop sales of our offerings and may be unable to effectively compete. Any of these results would adversely affect our business, results of operations, financial condition and cash flows. To deter other companies from making intellectual property claims against us or to gain leverage in settlement negotiations, we may be forced to significantly increase the size of our intellectual property portfolio through internal efforts and acquisitions from third parties, both of which could require significant expenditures. However, a robust intellectual property portfolio may provide little or no deterrence, particularly for patent holding companies or other patent owners that have no relevant product revenues.

We use “open source” software in our solutions, which may restrict how we distribute our offerings, require that we release the source code of certain software subject to open source licenses or subject us to possible litigation or other actions that could adversely affect our business.

We currently use in our solutions, and expect to continue to use in the future, software that is licensed under so-called “open source,” “free” or other similar licenses. Open source software is made available to the general public on an “as-is” basis under the terms of a non-negotiable license. We currently combine our proprietary software with open source software but not in a manner that we believe requires the release of the source code of our proprietary software to the public. We do not plan to integrate our proprietary software with open source software in ways that would require the release of the source code of our proprietary software to the public, however, our use and distribution of open source software may entail greater risks than use of third-party commercial software. Open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, if we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar offerings with lower development effort and time and ultimately could result in a loss of sales. We may also face claims alleging noncompliance with open source license terms or infringement or misappropriation of proprietary software. These claims could result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have a negative effect on our business and operating results. In addition, if the license terms for open source software that we use change, we may be forced to re-engineer our solutions, incur additional costs or discontinue the sale of our offerings if re-engineering could not be accomplished on a timely basis. Although we monitor our use of open source software to avoid subjecting our offerings to unintended conditions, few courts have interpreted open source licenses, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our offerings. We cannot guarantee that we have incorporated open source software in our software in a manner that will not subject us to liability, or in a manner that is consistent with our current policies and procedures.

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

The energy produced and revenue and cash receipts generated by a solar energy system depend on suitable solar, atmospheric and weather conditions, all of which are beyond our control. Furthermore, components of our systems, such as panels and inverters, could be damaged by severe weather, such as hailstorms or lightning. Although we maintain insurance to cover for many such casualty events, our investment funds would be obligated to bear the expense of repairing the damaged solar energy systems, sometimes subject to limitations based on our ability to successfully make warranty claims. Our economic model and projected returns on our systems require us to achieve certain production results from our systems and, in some cases, we guarantee these results for both our consumers and our investors. If the systems underperform for any reason, our financial results could suffer. Sustained unfavorable weather also could delay our installation of solar energy systems, leading to increased expenses and decreased revenue and cash receipts in the relevant periods. We have experienced seasonal fluctuations in our operations. For example, the amount of revenue we recognize in a given period from power purchase agreements is dependent in part on the amount of energy generated by solar energy systems under such contracts. As a result, operating leases and incentives revenue is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather. For example, we have limited ability to install solar energy systems during the winter months in the Northeastern United States. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our recent growth rates and thus may not be readily apparent

from our historical operating results and may be difficult to predict. As such, our historical operating results may not be indicative of future performance. Furthermore, weather patterns could change, making it harder to predict the average annual amount of sunlight striking each location where we install a solar energy system. This could make our solar energy systems less economical overall or make individual systems less economical. Any of these events or conditions could harm our business, financial condition, results of operations and prospects.

Disruptions to our solar monitoring systems could negatively impact our revenues and increase our expenses.

Our ability to accurately charge our customers for the energy produced by our solar energy systems depends on customers maintaining a broadband internet connection so that we may receive data regarding solar energy systems production from their home networks. We could incur significant expenses or disruptions of our operations in connection with failures of our solar monitoring systems, including failures of our customers' home networks that would prevent us from accurately monitoring solar energy production. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our systems. The costs to us to eliminate or alleviate viruses and bugs, or any problems associated with failures of our customers' home networks could be significant, and the efforts to address these problems could result in interruptions, delays or cessation of service that may impede our sales, distribution or other critical functions. We have in the past experienced periods where some of our customers' networks have been unavailable and, as a result, we have been forced to estimate the production of their solar energy systems. Such estimates may prove inaccurate and could cause us to underestimate the power being generated by our solar energy systems and undercharge our customers, thereby harming our results of operations.

We are exposed to the credit risk of our customers.

Our solar energy customers primarily purchase energy or lease solar energy systems from us pursuant to one of two types of long-term contracts: a power purchase agreement or a lease. The power purchase agreement and lease terms are typically for 20 years, and require the customer to make monthly payments to us. Accordingly, we are subject to the credit risk of our customers. As of December 31, 2015, the average FICO score of our customers was approximately 760. However, as we grow our business, we expect that the risk of customer defaults will increase. As a result, our reserve for this exposure is estimated to be $0.9 million as of December 31, 2015, and our future exposure may exceed the amount of such reserves.

A failure to comply with laws and regulations relating to our interactions with current or prospective residential customers could result in negative publicity, claims, investigations and litigation, and adversely affect our financial performance.

Our business substantially focuses on contracts and transactions with residential customers. We must comply with numerous federal, state and local laws and regulations that govern matters relating to our interactions with residential consumers, including those pertaining to privacy and data security, consumer financial and credit transactions, home improvement contracts, warranties, door-to-door solicitation as well as specific regulations pertaining to solar installations. These laws and regulations are dynamic and subject to potentially differing interpretations, and various federal, state and local legislative and regulatory bodies may initiate investigations, expand current laws or regulations, or enact new laws and regulations, regarding these matters. Changes in these laws or regulations or their interpretation could dramatically affect how we do business, acquire customers, and manage and use information we collect from and about current and prospective customers and the costs associated therewith. For example, Arizona recently enacted a new statute that will require increased disclosures and acknowledgements in any agreement governing the financing, sale or lease of distributed energy systems, such as our solar energy systems. This new law, which took effect on December 31, 2015, required us to amend the standard legal-form lease we provide customers in Arizona to, among other things, include an acknowledgement by the customer of any restrictions on the ability to transfer ownership of the solar energy system or underlying property and provide contact information for any party that has the right to review or approve such a transfer. We strive to comply with all applicable laws and regulations relating to our interactions with residential customers. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. For example, members of the U.S. House of Representatives have sent letters to the Consumer

Financial Protection Board, or CFPB, and the Federal Trade Commission, or FTC, requesting that these agencies investigate the sales practices of companies providing solar energy system leases to residential consumers. While we believe our standard sales practices and policies comply with all applicable laws and regulations, if the CFPB or FTC or other regulators or agencies were to initiate an investigation against us or enact regulations relating to the marketing of solar leases to residential consumers, responding to such investigation or complying with such regulations could require us to modify our operations and incur significant additional expenses, which could have an adverse effect on our business, financial condition and results of operations or could reduce the number of our potential customers. Additionally, we cannot ensure that our sales force will comply with our standard practices and policies, and any such non-compliance which violates applicable laws or regulations could also expose us to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business. We have incurred, and will continue to incur, significant expenses to comply with such laws and regulations.

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

We receive, store and use personal information of our customers, including names, addresses, e-mail addresses, credit information and other housing and energy use information. We also store and use personal information of our employees. In addition, we currently utilize certain shared information and technology systems with Vivint. We take certain steps in an effort to protect the security, integrity and confidentiality of the personal information we collect, store or transmit, but there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this information despite our efforts. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we and our suppliers or vendors, including Vivint, may be unable to anticipate these techniques or to implement adequate preventative or mitigation measures. In addition, due to a potential time lapse between when a sales representative leaves us and when we are made aware of the separation, sales representatives may have continued access to our customers' information for a period when they should not.

Unauthorized use or disclosure of, or access to, any personal information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our suppliers or vendors, including Vivint, by an unauthorized party, or through employee or contractor error, theft or misuse, or otherwise, could harm our business. If any such unauthorized use or disclosure of, or access to, such personal information were to occur, our operations could be seriously disrupted and we could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, we could incur significant costs in notifying affected persons and entities and otherwise complying with the multitude of federal, state and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business, financial condition and results of operations.

We are involved, and may become involved in the future, in legal proceedings that, if adversely adjudicated or settled, could adversely affect our financial results.

We are, and may in the future become, party to litigation. For example, in September 2014, two of our former installation technicians, on behalf of themselves and a purported class, filed a complaint for damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against us and unnamed John Doe defendants. The complaint alleges certain violations of the California Labor Code and the California Business and Professions Code based on, among other things, alleged improper classification of installer technicians, installer helpers, electrician technicians and electrician helpers, failure to pay minimum and overtime wages, failure to provide accurate itemized wage statements, and failure to provide wages on termination. In December 2014, the original plaintiffs and three additional plaintiffs filed an amended complaint with essentially the same allegations. On November 5, 2015, the parties agreed to preliminary terms of a settlement of all claims related to allegations in the complaint in return for our payment of $1.7 million to be paid out to the purported class members. The settlement agreement must be approved by the Court, after notice to the purported class. A $1.7 million reserve was recorded related to this proceeding in our consolidated financial statements.

On September 9, 2015, two of our customers, on behalf of themselves and a purported class, named us in a putative class action, Case No. BCV-15-100925(Cal. Super. Ct., Kern County), alleging violation of California Business and Professional Code Section 17200 and requesting relief pursuant to Section 1689 of the California Civil Code. The complaint seeks: (1) rescission of their power purchase agreements along with restitution to the plaintiffs individually and (2) declaratory and injunctive relief. On October 16, 2015, we moved to compel arbitration of the plaintiffs' claims pursuant to the provisions set forth in the power purchase agreements, which the Court granted and dismissed the class

claims without prejudice. Plaintiffs have appealed the Court's order. We are not able to estimate the amount or range of potential loss, if any, at this time.

In addition, in November and December 2014, two putative class action lawsuits were filed in the U.S. District Court for the Southern District of New York against us, our directors, certain of our officers and the underwriters of our initial public offering of common stock alleging violation of securities laws and seeking unspecified damages. In January 2015, the Court ordered these cases to be consolidated into the earlier filed case, Hyatt v. Vivint Solar, Inc. et al., 14-cv-9283 (KBF). The plaintiffs filed a consolidated amended complaint in February 2015. On May 6, 2015, we filed a motion to dismiss the complaint and on December 10, 2015, the Court issued an Opinion and Order dismissing the complaint with prejudice. On January 5, 2016, the plaintiffs filed a Notice of Appeal to the Second Circuit Court of Appeals. We are unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur in this case, it is possible that the impact could be material to our results of operations in the period(s) in which any such outcome becomes probable and estimable.

While we intend to defend against these actions vigorously, the ultimate outcomes of these cases are presently not determinable as they are in a preliminary phase. In general, litigation claims can be expensive and time consuming to bring or defend against, may result in the diversion of management attention and resources from our business and business goals and could result in settlements or damages that could significantly affect financial results and the conduct of our business. It is not possible to predict the final resolution of the litigation to which we currently are or may in the future become party, and the impact of certain of these matters on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Risks Related to our Relationship with Vivint

Vivint provides us with certain information technology support for our business. If Vivint fails to perform its obligations to us or if we do not find appropriate replacement services, we may be unable to perform these services or implement substitute arrangements on a timely and cost-effective basis on terms favorable to us.

We have historically relied on the technical support of Vivint to run our business. Some of the Vivint resources we are using include information technology and infrastructure, employee benefits and certain other services. The implementation of new software support systems requires significant management time, support and cost, and there are inherent risks associated with implementing, developing, improving and expanding our core systems. We cannot be sure that these systems will be fully or effectively implemented on a timely basis, if at all. If we do not successfully implement these systems, our operations may be disrupted and our operating results could be harmed. In addition, the new systems may not operate as we expect them to, and we may be required to expend significant resources to correct problems or find alternative sources for performing these functions.

In order to successfully transition to our own systems and operate as a stand-alone business, we entered into various agreements with Vivint in connection with our public offering. These include a master framework agreement providing the overall terms of the relationship and a transition services agreement detailing various information technology services that Vivint will provide. Vivint will provide each service until we agree that support from Vivint is no longer required for that service. The information technology services provided under the transition services agreement may not be sufficient to meet our needs and we may not be able to replace these services at favorable costs and on favorable terms, if at all. Any failure or significant downtime in our own financial or administrative systems or in Vivint's financial or administrative systems during the transition period and any difficulty in separating our information technology services from Vivint's information technology services and integrating newly developed or acquired information technology services into our business could result in unexpected costs, impact our results or prevent us from paying our suppliers and performing other technical, administrative and information technology services on a timely basis and could materially harm our business, financial condition, results of operations and cash flows.

Our inability to resolve any disputes that arise between us and Vivint with respect to our past and ongoing relationships may adversely affect our financial results, and such disputes may also result in claims for indemnification.

Disputes may arise between Vivint and us in a number of areas relating to our past and ongoing relationships, including the following:

- intellectual property, labor, tax, employee benefits, indemnification and other matters arising from our separation from Vivint;
- employee retention and recruiting;
- our ability to use, modify and enhance the intellectual property that we have licensed from Vivint;
- business combinations involving us;

- pricing for shared and transitional services;
- exclusivity arrangements;
- the nature, quality and pricing of products and services Vivint agrees to provide to us; and
- business opportunities that may be attractive to both Vivint and us.

We have entered into certain agreements with Vivint. Pursuant to the terms of the Non-Competition Agreement we have entered into with Vivint, we and Vivint each define our areas of business and our competitors, and agree not to directly or indirectly engage in the other's business for three years. This agreement may limit our ability to pursue attractive opportunities that we may have otherwise pursued.

Additionally, this agreement prohibits, for a period of five years, either Vivint or us from soliciting for employment any member of the other's executive or senior management team, or any of the other's employees who primarily manage sales, installation or services of the other's products and services. The commitment not to solicit each other's employees lasts for 180 days after such employee finishes employment with us or Vivint. Historically we have recruited a majority of our sales personnel from Vivint. This agreement may require us to obtain personnel from other sources, and may limit our ability to continue scaling our business if we are unable to do so.

Pursuant to the terms of the Marketing and Customer Relations Agreement we have entered into with Vivint, we and Vivint are required to compensate one another for sales leads that result in sales. Vivint may direct sales leads to other solar energy companies in markets in which we have not entered. However, once we enter a market, Vivint must exclusively direct to us all leads for customers and potential customers with an interest in solar energy. Vivint's ability to sell leads to other solar energy providers in markets where we are not currently operating may adversely affect our ability to scale rapidly if we subsequently enter into such market as many of Vivint's customers with solar energy inclinations may have already been referred to another company by the time we enter into such market.

We may not be able to resolve any potential conflicts relating to these agreements or otherwise, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party. In addition, we have indemnification obligations under the intercompany services agreements we entered into with Vivint, and disputes between us and Vivint may result in claims for indemnification. However, we do not currently expect that these indemnification obligations will materially affect our potential liability compared to what it would be if we did not enter into these agreements with Vivint.

Risks Related to Our Common Stock

The price of our common stock may be volatile, and the value of your investment could decline.

The trading price of our common stock may be highly volatile. For example, from our initial public offering to March 11, 2016, the closing price of our common stock has ranged from a high of $16.01 to a low of $4.09. Our stock price could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- our financial condition and the availability and terms of future financing;
- changes in laws or regulations applicable to our industry or offerings;
- additions or departures of key personnel;
- the failure of securities analysts to cover our common stock;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts;
- securities litigation involving us;
- price and volume fluctuations in the overall stock market;
- volatility in the market price and trading volume of companies in our industry or companies that investors consider comparable;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us or our stockholders;
- the expiration of contractual lock-up agreements;
- litigation or disputes involving us, our industry or both;
- major catastrophic events;
- general economic and market conditions; and
- potential acquisitions.

32

Further, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In addition, the stock prices of many renewable energy companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of our common stock to decline. If the market price of our common stock decreases, investors may not realize any return on investment and may lose some or all of their investments.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are currently subject to two putative class action lawsuits, subsequently consolidated into an amended complaint, filed in the U.S. District Court for the Southern District of New York, alleging certain misrepresentations by us in connection with our initial public offering. We may become the target of additional securities litigation in the future, which could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

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

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies" including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We have utilized, and we plan in future filings with the SEC to continue to utilize, the modified disclosure requirements available to emerging growth companies. As a result, our stockholders may not have access to certain information they may deem important.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not "emerging growth companies."

We could remain an ''emerging growth company'' for up to five years, or until the earliest of (1) the last day of the first fiscal year in which our annual gross revenue exceeds $1 billion, (2) the date that we become a ''large accelerated filer'' as defined in Rule 12b-2 under the Exchange Act, which would occur if we become a seasoned issuer and the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter or (3) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period.

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to

sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of December 31, 2015, we had 106.6 million outstanding shares of common stock. These shares may be sold in the public market in the United States, subject to prior registration in the United States, if required, or reliance upon an exemption from U.S. registration, including, in the case of shares held by affiliates or control persons, compliance with the volume restrictions of Rule 144.

In addition, 0.6 million shares of our common stock reserved for future issuance under our Long-Term Incentive Plan were issued, vested and became immediately tradable without restriction on April 15, 2015. Approximately 2.7 million additional shares of our common stock reserved for future issuance under our Long-Term Incentive Plan will issue, vest and be immediately tradable without restriction on the date that The Blackstone Group L.P., our sponsor, and its affiliates achieve specified returns on their invested capital. On the date that is 18 months after the closing of our initial public offering, approximately 0.7 million shares reserved for future issuance under our Long-Term Incentive Plan will issue, vest and be immediately tradable without restriction. For more information regarding the shares reserved under our Long Term Incentive Plan see the section of the Prospectus captioned “Shares Eligible for Future Sale.”

Further, options to purchase 9.3 million shares of common stock remained outstanding as of December 31, 2015, with 4.2 million of those shares being vested and exercisable as of December 31, 2015. Of the 5.1 million shares that are not yet vested, 1.8 million shares are subject to ratable time-based vesting over a five year period and 0.1 million shares are subject to time-based vesting over a four year period with 25% vesting after 1 year and 6.25% vesting quarterly thereafter. All shares subject to time-based vesting will become immediately tradable once vested. The remaining 3.2 million shares are subject to vesting upon certain performance conditions and will vest and become immediately tradable when 313 Acquisition LLC receives cash proceeds with respect to its holdings of our common stock in an amount that equals $500 million more than its cumulative investment in our common stock (which amount shall be equal to $75 million plus any amounts invested after November 16, 2012). As of December 31, 2015, 0.9 million restricted stock units remained outstanding, most of which are time-based and vest over four years with 25% vesting after 1 year and 6.25% vesting quarterly thereafter.

Stockholders owning an aggregate of 84.7 million shares of our common stock are entitled, under contracts providing for registration rights, to require us to register shares of our common stock owned by them for public sale in the United States, subject to the restrictions of Rule 144. On October 1, 2014, we filed a registration statement on Form S-8 to register 22.9 million shares previously issued or reserved for future issuance under our equity compensation plans and agreements. Upon effectiveness of this registration statement, subject to the satisfaction of applicable exercise periods, the shares of common stock issued upon exercise of outstanding options will be available for immediate resale in the United States in the open market. Sales of our common stock as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

Our sponsor and its affiliates control us and their interests may conflict with ours or yours in the future.

As of December 31, 2015, 313 Acquisition LLC, which is controlled by our sponsor and its affiliates, beneficially owned approximately 77% of our common stock. Moreover, under our organizational documents and the stockholders agreement with 313 Acquisition LLC, for so long as our existing owners and their affiliates retain significant ownership of us, we will agree to nominate to our board individuals designated by our sponsor, whom we refer to as the sponsor directors. In addition, for so long as 313 Acquisition LLC continues to own shares representing a majority of the total voting power, we will agree to nominate to our board individuals appointed by Summit Partners and Todd Pedersen. Even when our sponsor and its affiliates and certain of its co-investors cease to own shares of our stock representing a majority of the total voting power, for so long as our sponsor and its affiliates continue to own a significant percentage of our stock our sponsor will still be able to significantly influence the composition of our board of directors and the approval of actions requiring stockholder approval. In addition, under the stockholders agreement, affiliates of our sponsor will have consent rights with respect to certain actions involving our company, provided a certain aggregate ownership threshold is maintained collectively by our sponsor and its affiliates, together with Summit Partners, Todd Pedersen and Alex Dunn and their respective affiliates. Accordingly, for such period of time, our sponsor and certain of its co-investors will have significant influence with respect to our management, business plans and policies, including the appointment and removal of our officers. In particular, for so long as our sponsor and its affiliates continue to own a significant percentage of our stock, our sponsor will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive you of an opportunity to receive a premium for your shares of common stock as part of a sale of our company and ultimately might affect the market price of our common stock.

Our sponsor and its affiliates engage in a broad spectrum of activities, including investments in the energy sector. In the ordinary course of their business activities, our sponsor and its affiliates may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. For example, affiliates of our sponsor regularly

invest in utility companies that compete with solar energy and renewable energy companies such as ours. In addition, affiliates of our sponsor own interests in one of the largest solar power developers in India and may in the future make other investments in solar power, including in the United States. Our certificate of incorporation provides that none of our sponsor, any of its affiliates or any director who is not employed by us (including any non-employee director who serves as one of our officers in both his or her director and officer capacities) or his or her affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. Our sponsor also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our sponsor may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its investment, even though such transactions might involve risks to you.

We have elected to take advantage of the "controlled company" exemption to the corporate governance rules for NYSE-listed companies, which could make our common stock less attractive to some investors or otherwise harm our stock price.

Because we qualify as a "controlled company" under the corporate governance rules for NYSE-listed companies, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, in the future we could elect not to have a majority of our board of directors be independent or not to have a compensation committee or nominating and governance committee. Accordingly, should the interests of 313 Acquisition LLC or our sponsor differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance rules for NYSE-listed companies. Our status as a controlled company could make our common stock less attractive to some investors or otherwise harm our stock price.

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

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

- establishing a classified board of directors so that not all members of our board of directors are elected at one time;
- authorizing "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- limiting the ability of stockholders to call a special stockholder meeting;
- limiting the ability of stockholders to act by written consent;
- providing that the board of directors is expressly authorized to make, alter or repeal our bylaws;
- establishing advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring our sponsor to consent to certain actions, as described under the section of our 2015 Proxy Statement captioned "Related Party Transactions—Agreements with Our Sponsor," for so long as our sponsor, Summit Partners, Todd Pedersen and Alex Dunn or their respective affiliates collectively own, in the aggregate, at least 30% of our outstanding shares of common stock;
- the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 2/3% in voting power of all the then-outstanding shares of stock of our company entitled to vote thereon, voting together as a single class, if Blackstone and its affiliates beneficially own, in the aggregate, less than 30% in voting power of the stock of our company entitled to vote generally in the election of directors; and
- that certain provisions may be amended only by the affirmative vote of the holders of at least 66 2/3% in voting power of all the then-outstanding shares of stock of our company entitled to vote thereon, voting together as a single class, if Blackstone and its affiliates beneficially own, in the aggregate, less than 30% in voting power of the stock of our company entitled to vote generally in the election of directors.

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

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who do now, or may in the future, cover us change their recommendation regarding our stock adversely, or provide more favorable relative

recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters and executive offices are currently located in Lehi, Utah, where we occupy approximately 37,000 square feet of office space. We lease approximately 134,000 square feet of office space with TCO-Canyon Park, LLC in Orem, Utah. We have entered into a lease with T-Stat One, LLC for approximately 150,000 square feet of office space that will replace our current corporate headquarters and executive offices once the building is completed, which is expected to be in the second quarter of 2016. We also entered into a lease for the construction of a second office building and a studio building on the corporate headquarters campus that will increase the leased premises by approximately 160,000 square feet. Construction on the studio building is on hold and the second office building is expected to be available in 2018.

Our other locations include warehouses and sales offices that range from approximately 1,000 to 36,000 square feet in Arizona, California, Connecticut, Hawaii, Maryland, Massachusetts, New Jersey, New Mexico, Nevada, New York, Pennsylvania, South Carolina and Utah.

We lease all of our facilities and we do not own any real property. We believe with the addition of our corporate headquarter space to be completed in 2016 that our Utah offices are sufficient to meet our current needs and our anticipated growth.

Item 3. Legal Proceedings.

In December 2013, one of our former sales representatives, on behalf of himself and a purported class, filed a complaint for unspecified damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against Vivint Solar Developer, LLC, one of our subsidiaries, and unnamed John Doe defendants alleging violations of the California Labor Code and the California Business and Professions Code and seeking penalties of an unspecified amount, interest on all economic damages and reasonable attorney’s fees and costs. In January 2014, we filed an answer denying the allegations in the complaint and asserting various affirmative defenses. In late 2014, the parties agreed to preliminary terms of settlement, which were subsequently revised in mid-2015. The settlement agreement provided for a settlement payment from us in the amount of $0.4 million. On October 30, 2015, the Court entered a final order approving the settlement agreement and the settlement payment was distributed in accordance with the settlement agreement.

In September 2014, two of our former installation technicians, on behalf of themselves and a purported class, filed a complaint for damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against us and unnamed John Doe defendants. The complaint alleges certain violations of the California Labor Code and the California Business and Professions Code based on, among other things, alleged improper classification of installer technicians, installer helpers, electrician technicians and electrician helpers, failure to pay minimum and overtime wages, failure to provide accurate itemized wage statements, and failure to provide wages on termination. In December 2014, the original plaintiffs and three additional plaintiffs filed an amended complaint with essentially the same allegations. On November 5, 2015, the parties agreed to preliminary terms of a settlement of all claims related to allegations in the complaint in return for our payment of $1.7 million to be paid out to the purported class members. The settlement agreement must be approved by the Court, after notice to the purported class. A $1.7 million reserve was recorded related to this proceeding in our consolidated financial statements.

In November and December 2014, two putative class action lawsuits were filed in the U.S. District Court for the Southern District of New York against us, our directors, certain of our officers and the underwriters of our initial public offering of common stock alleging violation of securities laws and seeking unspecified damages. In January 2015, the Court ordered these cases to be consolidated into the earlier filed case, Hyatt v. Vivint Solar, Inc. et al.,

14-cv-9283 (KBF). The plaintiffs filed a consolidated amended complaint in February 2015. On May 6, 2015, we filed a motion to dismiss the complaint and on December 10, 2015, the Court issued an Opinion and Order dismissing the complaint with prejudice. On January 5, 2016, the plaintiffs filed a Notice of Appeal to the Second Circuit Court of Appeals. We are unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur in this case, it is possible that the impact could be material to our results of operations in the period(s) in which any such outcome becomes probable and estimable.

On July 31, 2015, a putative class action lawsuit was filed in the Court of Chancery State of Delaware against our directors, SunEdison Inc., or SunEdison, and TerraForm Power, or TerraForm, alleging that the proposed acquisition by SunEdison is unfair to our stockholders. On August 7, 2015, a second putative class action lawsuit was filed in the same court alleging similar claims, and including 313, Acquisition, LLC as a named defendant. Both complaints seek injunctive relief and unspecified damages. On or about September 10, 2015, two purported class action lawsuits were also filed in Utah's Fourth District State Court, or the Utah Actions, alleging similar claims to the complaints previously filed in the Delaware Chancery Court. On September 22, 2015, we, through counsel notified plaintiff's counsel in the Utah Actions that pursuant to our Articles of Incorporation, any such derivative action was subject to exclusive jurisdiction in the Delaware Chancery Court, and accordingly, the Utah Actions should be dismissed. After a December 2015 amendment to the proposed acquisition, a new complaint was filed in the Delaware Chancery Court on January 11, 2016. The new complaint alleges breach of fiduciary duty against our directors, certain officers, and SunEdison, and seeks damages on behalf of a putative class. In view of our indemnification obligation to our directors, we are unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur in these cases, it is possible that the impact could be material to our results of operations in the period(s) in which any such outcome becomes probable and estimable.

On September 9, 2015, two of our customers, on behalf of themselves and a purported class, named us in a putative class action, Case No. BCV-15-100925(Cal. Super. Ct., Kern County), alleging violation of California Business and Professional Code Section 17200 and requesting relief pursuant to Section 1689 of the California Civil Code. The complaint seeks: (1) rescission of their power purchase agreements along with restitution to the plaintiffs individually and (2) declaratory and injunctive relief. On October 16, 2015, we moved to compel arbitration of the plaintiffs' claims pursuant to the provisions set forth in the power purchase agreements, which the Court granted and dismissed the class claims without prejudice. Plaintiffs have appealed the Court's order. We are not able to estimate the amount or range of potential loss, if any, at this time.

On March 8, 2016, we filed suit in the Court of Chancery State of Delaware against SunEdison and SEV Merger Sub Inc. alleging that SunEdison willfully breached its obligations under the Merger Agreement pursuant to which we were to be acquired and breached its implied covenant of good faith and fair dealing. We are seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just. While we believe that SunEdison willfully breached its obligations under the Merger Agreement and that our claims have merit and are likely to succeed, the outcomes of lawsuits are inherently unpredictable.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been traded on the New York Stock Exchange since October 1, 2014 under the symbol "VSLR." Prior to October 1, 2014, there was no established public trading market for our common stock. The following table sets forth the high and low sales price for our common stock as reported by the New York Stock Exchange for the period indicated.

	High	Low
Fourth quarter 2015	13.05	6.59
Third quarter 2015	16.00	9.91
Second quarter 2015	15.28	11.52
First quarter 2015	13.56	7.70
Fourth quarter 2014	18.71	7.42

As of March 2, 2016, we had four stockholders of record of our common stock. We also have approximately 11,500 beneficial holders whose stock is in nominee or "street name" accounts through brokers.

Stock Performance Graph

This following graph is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of Vivint Solar, Inc. under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

The following graph compares for the period from October 1, 2014 through December 31, 2015, the total cumulative stockholder return on our common stock with the total cumulative return of the New York Stock Exchange Composite Index, the MAC Global Solar Energy Index and a group of publicly traded peer companies. The graph assumes a $100 investment at the beginning of the period in our common stock, the stocks represented in the New York Stock Exchange Composite Index, the MAC Global Solar Energy Index and a group of publicly traded peer companies, and reinvestment of any dividends. Historical stock price performance should not be relied upon as an indication of future stock price performance:

Recent Sales of Unregistered Securities

None.

Issuer Purchase of Equity Securities

None.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to fund our growth, and we do not anticipate declaring or paying any cash dividends in the foreseeable future. Additionally, the terms of one or more of our current debt instruments restrict our ability to pay cash dividends on our common stock. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and provisions of our debt instruments and organizational documents, after taking into account our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Item 6. Selected Financial Data.

The following table sets forth selected historical consolidated financial and other data for the periods ended and at the dates indicated below. On November 16, 2012, we were acquired by The Blackstone Group, L.P., our sponsor. We refer to the years ended December 31, 2015, 2014 and 2013 and the period from November 17, 2012 through December 31, 2012 as the Successor Periods or Successor, and the period from January 1, 2012 through November 16, 2012 as the Predecessor Period or Predecessor. Our selected historical consolidated statement of operations data for the years ended December 31, 2015, 2014 and 2013 presented in this table and the balance sheet data as of December 31, 2015 and 2014 have been derived from our historical audited consolidated financial statements included elsewhere in this report. Our historical results are not necessarily indicative of the results that may be expected in the future. The following selected financial data should be read in conjunction with the sections of this document captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report.

	Successor				Predecessor
	Year Ended December 31,			Period from November 17, through December 31,	Period from January 1, through November 16,
	2015	2014	2013	2012	2012
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue:					
Operating leases and incentives	$61,150	$21,688	$5,864	$ 109	$ 183
Solar energy system and product sales	3,032	3,570	306	—	157
Total revenue	64,182	25,258	6,170	109	340
Operating expenses:					
Cost of revenue—operating leases and incentives	131,213	67,984	19,004	1,018	3,302
Cost of revenue—solar energy system and product sales	1,762	1,997	123	—	95
Sales and marketing	48,078	21,869	7,348	533	1,471
Research and development	3,901	1,892	—	—	—
General and administrative	92,664	78,899	16,438	971	7,789
Amortization of intangible assets	13,172	14,911	14,595	1,824	—
Impairment of intangible assets	4,506	—	—	—	—
Total operating expenses	295,296	187,552	57,508	4,346	12,657
Loss from operations	(231,114)	(162,294)	(51,338)	(4,237)	(12,317)
Interest expense	12,568	9,323	3,144	96	881
Other (income) expense	(154)	1,372	1,865	44	240
Loss before income taxes	(243,528)	(172,989)	(56,347)	(4,377)	(13,438)
Income tax expense (benefit)	9,737	(7,070)	123	(1,074)	7
Net loss	(253,265)	(165,919)	(56,470)	(3,303)	(13,445)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(266,345)	(137,036)	(62,108)	(699)	(1,771)
Net income available (loss attributable) to stockholders	13,080	(28,883)	5,638	(2,604)	(11,674)
Accretion to redemption value of Series B redeemable preferred stock	—	—	—	—	(20,000)
Net income available (loss attributable) to common stockholders	$13,080	$(28,883)	$5,638	$ (2,604)	$ (31,674)
Net income available (loss attributable) per share to common stockholders[(1)]:					
Basic	$0.12	$(0.35)	$0.08	$ (0.03)	$ (0.42)
Diluted	$0.12	$(0.35)	$0.07	$ (0.03)	$ (0.42)
Weighted-average shares used in computing net income available					

(loss attributable) per share to common stockholders[1]:					
Basic	106,088	83,446	75,000	75,000	75,000
Diluted	109,858	83,446	75,223	75,000	75,000

(1) See Note 17—Basic and Diluted Net Income (Loss) Per Share to our consolidated financial statements for an explanation of the method used to calculate basic and diluted net income available (loss attributable) per share to common stockholders and the weighted-average number of shares used in the computation of the per share amounts.

	Year Ended December 31,			
	2015	2014	2013	2012
	(In thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$92,213	$261,649	$6,038	$11,650
Solar energy systems, net	1,102,157	588,167	188,058	47,089
Total assets	1,609,070	1,064,324	297,707	132,087
Revolving lines of credit, related party	—	—	41,412	15,000
Long-term debt	415,850	105,000	—	—
Redeemable non-controlling interests	169,541	128,427	73,265	17,741
Total equity	609,252	613,136	80,621	71,323

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

You should read the following discussion together with Item 6 "Selected Financial Data" and our consolidated financial statements and the related Notes included in Item 8 of this report. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of the many factors, including those we describe under "Risk Factors" and elsewhere in this report. See "Forward-Looking Statements."

Business Overview

We primarily offer distributed solar energy to residential customers based on long-term contracts at prices below their current utility rates. Our customer focus, neighborhood-driven direct-to-home sales model, brand and operational efficiency have driven our rapid growth in solar energy installations. We believe our continued growth is disrupting the traditional electricity market by satisfying customers' demand for increased energy independence and less expensive, more socially responsible electricity generation.

We primarily sell the electricity that our solar energy systems produce through long-term power purchase agreements or lease the solar energy systems through long-term leases. Prior to 2014, all of our long-term customer contracts were structured as power purchase agreements. In 2014, we began offering leases to residential customers. Under either contract type, we install our solar energy system at our customer's home and bill the customer monthly. In the power purchase agreement structure, we charge customers a fee per kilowatt hour based on the amount of electricity the solar energy system actually produces. In the lease structure, the customer's monthly payment is fixed based on a calculation that takes into account expected solar energy generation. We provide our lease customers a performance guarantee, under which we agree to make a payment at the end of each year to the customer if the solar energy system does not meet the guaranteed production level in the prior 12-month period. The power purchase agreement and lease terms are typically for 20 years, and virtually all the prices that we charge to our customers are subject to pre-determined annual fixed percentage price escalations as specified in the customer contract. Since the beginning of 2014, substantially all of our customer contracts have included an annual price escalator of 2.9%. We do not believe that either form of long-term customer contract is materially more advantageous to us than the other. In 2015, we began offering our customers the option to purchase solar energy systems.

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 varies depending on the state where the customer is located and the local traditional utility. In markets that are also served by other distributed solar energy system providers, the price we charge also depends on customer price sensitivity, the need to offer a compelling financial benefit and the price other solar energy companies charge in the region.

Our ability to offer long-term customer contracts depends in part on our ability to finance the installation of the solar energy systems by co-investing or entering into lease arrangements with fund investors who value the resulting customer receivables and investment tax credits, accelerated tax depreciation and other incentives related to the solar energy systems through structured investments known as "tax equity." Tax equity investments are generally structured as non-recourse project financings. In the context of the distributed solar energy market, tax equity investors make an upfront advance payment to a sponsor through an investment fund in exchange for a share of the tax attributes and cash flows emanating from an underlying portfolio of solar energy systems. In these tax equity investments, the U.S. federal tax attributes offset taxes that otherwise would have been payable on the investors' other operations.

As of February 29, 2016, we had raised 16 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion, which will enable us to install solar energy systems of total fair market value approximating $2.6 billion. As of February 29, 2016, we had tax equity commitments to fund approximately 55 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $241 million. As of February 29, 2016, we had entered into one commercial and industrial, or C&I, investment fund with a total committed capital amount of $150.0 million. The C&I investment fund was not operational, i.e., no projects had been accepted into the fund as of February 29, 2016. The terms and conditions of each investment fund vary significantly by investor and by fund. We continue to negotiate with financial investors to create additional investment funds.

Our investment funds have adopted the partnership, inverted lease or lease pass-through structures. Under partnership structures, we and our fund investors contribute cash into a partnership company. The partnership uses this cash to acquire solar energy systems developed by us and sells energy from such systems to customers or directly leases the solar energy systems to customers. Under our existing inverted lease structures, we and the fund investor set up a multi-tiered investment vehicle, comprised of two partnership entities, that facilitates the pass through of the tax benefits to the fund investors. In this structure we contribute solar energy systems to a lessor partnership entity in exchange for interests in the lessor partnership and the fund investors contribute cash to a lessee partnership in exchange for interests in the lessee partnership which in turn makes an investment in the lessor partnership entity in exchange for interests in the lessor partnership. The lessor partnership distributes the cash contributions received from the lessee partnership to our wholly owned subsidiary that contributed the projects to the lessor partnership. The lessor partnership leases the contributed solar energy systems to the lessee partnership under a master lease, and the lessee partnership pays the lessor partnership rent for those systems.

In 2015, we entered into a lease pass-through structure in which we set up a lessor entity and the fund investor set up a lessee entity. Under this structure, we lease solar energy systems to the fund investor under a master lease agreement, and the investor in turn subleases the solar energy systems to customers. We receive all of the value attributable to the accelerated tax depreciation and the value attributable to the other incentives. We assign to the fund investor the value attributable to the ITCs and, for the duration of the master lease term, the long-term recurring customer payments. The investor makes a significant upfront cash payments that we classify and allocate between the right to the ITCs and the future customer lease payments and other benefits assigned to the investor, which are recorded as a lease pass-through financing obligation. After the master lease term expires, we receive the customer payments. We record the amounts allocated to the ITCs as deferred revenue on our consolidated balance sheets as the associated solar energy systems are placed in service. We then recognize the deferred revenue in our consolidated statements of operations as revenue from operating leases and incentives, by reducing the deferred revenue balance at each reporting date as the five-year recapture period expires. We record the balance of the amounts received from fund investors as a financing obligation on our consolidated balance sheets and subsequently reduce the obligation by the amounts received by the fund investors from customer payments and the associated incentive rebates. We in turn recognize the incentive rebates and customer payments as revenue over the customer lease term and depreciate the associated solar energy systems over the estimated life of these systems.

We have determined that we are the primary beneficiary in these partnership and inverted lease structures for accounting purposes. Accordingly, we consolidate the assets and liabilities and operating results of these partnerships in our consolidated financial statements. We recognize the fund investors' share of the net assets of the investment funds as non-controlling interests and redeemable non-controlling interests in our consolidated balance sheets. These income or loss allocations, reflected on our consolidated statement of operations, may create significant volatility in our reported results of operations, including potentially changing net income available (loss attributable) to common stockholders from income to loss, or vice versa, from quarter to quarter.

Recent Developments

SunEdison Acquisition

In July 2015, we entered into the Merger Agreement, which agreement was amended in December 2015, pursuant to which we were to have been acquired by SunEdison.

We delivered notice to SunEdison on February 26, 2016, and again on March 1, 2016, that, pursuant to Section 1.02 of the Merger Agreement, SunEdison was required to cause the closing of the acquisition to occur on February 26, 2016, and remained obligated to cause the closing to occur, given that all conditions to SunEdison's obligations to close the acquisition in Section 6.01 and 6.03 of the Merger Agreement were satisfied on February 24, 2016 when (1)

our stockholders adopted the Merger Agreement, and (2) the marketing period contemplated by the agreement related to SunEdison's financing of the acquisition (which commenced when we delivered all required information to SunEdison on February 11, 2016) terminated on February 21, 2016. SunEdison's failure to cause the closing within three business days of the delivery of the notices specified in the preceding sentence triggered our right to terminate the Merger Agreement pursuant to Section 7.01(i) thereof.

Moreover, as of SunEdison's failure to cause the closing to occur on February 26, 2016, SunEdison was in breach of its covenants under Section 1.02 and 4.05(a) of the Merger Agreement, and such breach resulted in the failure of the conditions set forth in Section 6.02 of the Merger Agreement to be satisfied on such date. SunEdison's representatives subsequently have informed us that SunEdison is unable to cause the closing to occur in the foreseeable future. Since such breach is therefore incurable prior to March 18, 2016, the date on which the Merger Agreement would otherwise terminate, we have the right to terminate the Merger Agreement pursuant to Section 7.01(e) thereof.

As a result of the foregoing and in accordance with and pursuant to our rights under Section 7.01(i) and 7.01(e) of the Merger Agreement, we terminated the Merger Agreement.

On March 8, 2016, we filed suit in the Court of Chancery State of Delaware against SunEdison alleging that SunEdison willfully breached its obligations under the Merger Agreement and breached its implied covenant of good faith and fair dealing. We are seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just.

During the nine months of the pendency of the potential acquisition of our company by SunEdison, our planning related to being part of a larger organization, which would require a different headcount and cost structure than if we were operating as a standalone entity. During the pendency of the potential acquisition, we were restricted in our ability to obtain financing. As a result, we deferred pursuit of various financing options, including acquiring additional investment funds and incurring additional debt. Our executive leadership team, together with our board of directors, is re-evaluating our operating plan in light of the termination of the Merger Agreement and our financing needs. As a result, as of the date of this report we are uncertain as to what level of growth, resources and ultimately costs that may be incurred in future business operations.

Term Loan Facility

On March 14, 2016, Vivint Solar Financing Holdings, LLC, one of our subsidiaries, entered into a financing agreement pursuant to which it may borrow up to an aggregate principal amount of $200.0 million of term loan borrowings from investment funds and accounts advised by Highbridge Principal Strategies, LLC. We refer to such financing agreement as the "term loan facility." We will initially incur $75.0 million in borrowings, one-third at closing and the remainder within 30 days of the closing date. We refer to such initial borrowings as "Tranche A" borrowings. The remaining $125.0 million aggregate principal amount in borrowings may be incurred in three installments of at least $25.0 million aggregate principal amount prior to the first anniversary of the closing date. We refer to such subsequent borrowings, if any, as "Tranche B" borrowings. If we do not incur any Tranche B borrowings, we must repay outstanding Tranche A borrowings in December 2016. If we incur any Tranche B borrowings, the maturity date for all borrowings will be extended to the fourth anniversary of the closing date. If we incur any Tranche B borrowings, we may not prepay any borrowings until the second anniversary of the closing date and any subsequent prepayments are subject to a fee equal to a 3.0% penalty. Borrowings under the term loan facility will be used for the construction and acquisition of solar energy systems.

Interest on the Tranche A borrowings accrues at a floating rate of LIBOR plus 5.5%; provided that if any Tranche B borrowings are incurred, the interest rate increases to a floating rate of LIBOR plus 8.0% for the entire principal amount outstanding. The term loan facility includes customary events of default, conditions to borrowing and covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. These restrictions do not impact our ability to enter into investment funds, including those that are similar to those entered into previously. Additionally, the parties to the term loan facility must maintain certain consolidated and project subsidiary loan-to-value ratios and a consolidated debt service coverage ratio, with such covenants to be tested as of the last day of each fiscal quarter and upon each incurrence of borrowings. Each of the parties to the term loan facility has pledged assets not otherwise pledged under another existing debt facility as collateral to secure their obligations under the term loan facility. Vivint Solar Financing Holdings Parent, LLC, another of our subsidiaries and the parent company of the borrower and certain other of our subsidiaries guarantee the borrower's obligations under the financing agreement.

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. These estimates 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, these estimates are based on a combination of assumptions that may not prove to be accurate over time, particularly given that a number of them involve estimates of cash flows up to 30 years in the future. Underperformance of the solar energy systems, payment defaults by our customers, cancellation of signed contracts, competition from other distributed solar energy companies, development in the distributed solar energy market and the energy market more broadly, technical innovation or other factors described under the section of this report captioned “Risk Factors” could cause our actual results to differ materially from our calculations. Furthermore, while we believe we have calculated these key metrics in a manner consistent with those used by others in our industry, other companies may in fact calculate these metrics differently than we do now or in the future, which would reduce their usefulness as a comparative measure.

- Solar energy system installations. Solar energy system installations represents the number of solar energy systems installed on customers’ premises. Cumulative solar energy system installations represents the aggregate number of solar energy systems that have been installed on customers’ premises. We track the number of solar energy system installations as of the end of a given period as an indicator of our historical growth and as an indicator of our rate of growth from period to period.

- Megawatts installed. Megawatts installed represents the aggregate megawatt nameplate capacity of solar energy systems that have been installed during the applicable period. Cumulative megawatts installed represents the aggregate megawatt nameplate capacity of solar energy systems that have been installed. We track the nameplate capacity of our solar energy systems as measured in megawatts DC STC, or direct current standard test conditions. Because the size of solar energy systems varies greatly, we believe that tracking the aggregate megawatt nameplate capacity of the systems is an indicator of our growth rate. We track megawatts installed in a given period as an indicator of asset growth in the period and cumulative megawatts installed as of the end of a given period as an indicator of our historical growth.
- Estimated nominal contracted payments remaining. Estimated nominal contracted payments remaining equals the sum of the remaining cash payments that our customers are expected to pay over the term of their agreements with us for systems installed as of the measurement date. For a power purchase agreement, we multiply the contract price per kilowatt-hour by the estimated annual energy output of the associated solar energy system to determine the estimated nominal contracted payments. For a customer lease, we include the monthly fees and upfront fee, if any, as set forth in the lease. We use the nominal contracted payments, together with the value attributable to investment tax credits, accelerated depreciation, solar renewable energy certificates, or SRECs, state tax benefits and rebates, to cover the fixed and variable costs associated with installing solar energy systems. Estimated nominal contracted payments remaining is a reporting metric forecasted as of specified dates. It is a forward-looking number, and we use judgment in developing the assumptions used to calculate it. The primary assumption in the calculation is the annual energy output of the associated solar energy systems, which is estimated based on typical annual sun hours given the system's location, nameplate production capacity of the system, and estimated declines in the solar equipment productivity over the life of the system. Those assumptions may not prove to be accurate over time. Estimated retained value and estimated retained value per watt amounts do not consider the impact of other events that could adversely affect the cash flows generated by the solar energy system during the contract term and anticipated renewal period. These events could include, but are not limited to, non-payment of obligated amounts by the customer, declines in utility rates for residential electricity or early contract termination by the customer as a result of the customer purchasing the solar energy system in connection with the sale of the home on which the solar energy system is installed.
- Estimated retained value. Estimated retained value represents the net cash flows discounted at 6% that we expect to receive from customers pursuant to long-term customer contracts net of estimated cash distributions to fund investors and estimated operating expenses for systems installed as of the measurement date. Estimated retained value, and the other metrics that are based on estimated retained value, are key operating metrics because these amounts reflect the net cash flows we expect to receive from customers pursuant to long-term customer contracts and represent valuable future revenue streams created by our operations, but which are not yet recognized on our financial statements.
- Estimated retained value under energy contracts. Estimated retained value under energy contracts represents the estimated retained value from the solar energy systems during the typical 20-year term of our contracts.
- Estimated retained value of renewal. Estimated retained value of renewal represents the estimated retained value associated with an assumed 10-year renewal term following the expiration of the initial contract term. To calculate estimated retained value of renewal, we assume all contracts are renewed at 90% of the contractual price in effect at the expiration of the initial term.
- Estimated retained value per watt. 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 long-term customer contracts that have been installed as of such date, and is subject to the same assumptions and uncertainties as estimated retained value. We have chosen to initially introduce our solar energy systems in states where utility rates, solar resource and regulatory policies provide for the most compelling market for distributed solar energy. Although we believe there are many other markets that have attractive economics for us, estimated retained value per watt will decrease over time because these markets are not as attractive as the ones in which we currently operate. We may experience disproportionate growth in markets that offer attractive incentives such as SRECs, the value of which is not reflected in estimated retained value. In addition, the estimated retained value associated with

commercial and industrial solar energy systems is typically less than that for residential solar energy systems. To the extent we expand into the commercial and industrial market, estimated retained value per watt will also be adversely affected. Furthermore, other companies may calculate estimated retained value per watt (or a similar metric) differently than we do, which reduces its usefulness as a comparative measure.

	Year Ended December 31,		
	2015	2014	2013
Solar energy system installations	32,807	22,424	10,521
Megawatts installed	230.8	155.4	58.0

	As of December 31,		
	2015	2014	2013
Cumulative solar energy system installations	68,527	35,720	13,296
Cumulative megawatts installed	458.9	228.2	72.8
Estimated nominal contracted payments remaining (in millions)	$1,871.9	$1,030.5	$394.1
Estimated retained value under energy contracts (in millions)	$705.6	$383.1	$151.2
Estimated retained value of renewal (in millions)	$200.5	$97.9	$39.2
Estimated retained value (in millions)	$906.1	$480.9	$190.4
Estimated retained value per watt	$1.98	$2.11	$2.62

Factors Affecting Our Performance

Availability of Capital

Our future success depends on our ability to raise capital from third-party investors on competitive terms to help finance the deployment of our residential solar energy systems. There are a limited number of potential investment fund investors and the competition for these investments is intense. The principal tax credit on which fund investors in our industry rely is the investment tax credit, or ITC. The amount for the ITC is equal to 30% of the value of eligible solar property. By statute, the ITC percentage is scheduled to decrease to 26% on January 1, 2020, 22% on January 1, 2021 and 10% on January 1, 2022. We intend to create additional investment funds with financial investors and corporate investors. We also use debt, equity or other financing strategies to fund our operations, including our obligations to make contributions to investment funds. Such other financing strategies may increase our cost of capital.

Incentives; Net Metering

Our cost of capital, the price we can charge for electricity, the cost of our systems and the demand for residential distributed solar energy is impacted by a number of federal, state and local government incentives and regulations, including: tax credits, particularly the ITC; tax abatements; rebate programs; net metering; and SRECs. These programs have on occasion been challenged by incumbent utilities and questioned by those in government and others arguing for less governmental spending and involvement in the energy market. In recent years, net metering programs have been subject to regulatory scrutiny and legislative proposals in some states, such as Arizona, California, Colorado, Hawaii, Nevada and Utah. Regulators in these states have considered imposing limits on the aggregate capacity of net metering generation, fees on net metering customers, reducing the rate that net metering customers are paid for the power that they deliver back to the grid and allegations that homeowners with net metered solar systems shift the costs of maintaining the electric grid onto non-solar ratepayers. For example, in California, the Public Utilities Commission largely upheld net metering in its current form with full retail compensation for exports, but did impose some additional fees on net metering customers, and will require such customers to take service on time of use rates. Additionally, in late 2015, the Nevada Public Utilities Commission voted in favor of a plan which limits export compensation to net metering customers and imposed high monthly fees, which greatly reduced the economic benefit to Nevada customers of residential solar. As a result we no longer have a presence in Nevada. To the extent that such views are reflected in government policy, the reduction of such incentives could adversely affect our results of operations, cost of capital and growth prospects.

We also apply for and receive SRECs and other state-level incentives in certain jurisdictions for power generated by our solar energy systems, which comprise a significant portion of the value to us of the associated solar energy systems. The market for SRECs is extremely volatile and sellers are often able to obtain better unit pricing by selling a large quantity of SRECs. As a result, we may sell SRECs infrequently, at opportune times and in large quantities and the timing and volume of our SREC sales may lead to fluctuations in our quarterly results.

Cost of Solar Energy Systems

Since our inception, the cost of solar panels and the components necessary to manufacture them has declined, which has been a key driver in the price we charge for electricity and customer adoption of solar energy. We have purchased substantially all of the solar panels used in our solar energy systems from manufacturers based in China which have benefited from favorable governmental policies and subsidies by the Chinese government. More recently, solar panel and component prices have stabilized and could increase in the future. In recent years, the U.S. government has imposed anti-dumping duties and countervailing duties on solar panels and other system components produced in China and Taiwan. See “Risk Factors—Risk Related to our Business—Our business has

benefited from the declining cost of solar panels, and our financial results may be harmed now that the cost of solar panels has stabilized and could increase in the future." As a result, we have begun sourcing solar cells from manufacturers located outside of China or Taiwan. The cost of other components, such as inverters, racking systems and other electrical equipment, may also vary from period to period. If solar energy system costs begin to increase, whether as a result of these tariffs or because of the removal of government subsidies, we may be forced to pass these costs on to our customers and the value proposition for customers would decrease. Alternatively, our financial results would decrease if we did not pass these costs on to our customers.

Expansion into New Markets

As of December 31, 2015, we operate in Arizona, California, Connecticut, Hawaii, Maryland, Massachusetts, New Jersey, New Mexico, New York, Pennsylvania, South Carolina and Utah. We chose to introduce our solar energy systems in these states based on the utility prices, sun exposure, climate conditions and regulatory policies in those states. We believe that these states remain underpenetrated. Accordingly, we intend to further penetrate these markets by introducing our solar energy systems into new neighborhoods and communities in states where we already have operations.

In recent years, the combination of declining solar energy system costs and increasing retail electricity prices have made distributed solar energy a cost effective power source for homeowners in an increasing number of markets. We plan to enlarge our addressable market by expanding into new states that present attractive economics for us and homeowners. We believe our scalable approach to entering new geographic markets significantly accelerates the time required for us to effectively sell in a particular market after establishing a new office.

Utility rates, availability of state incentives, other state, regional and local regulations, sun exposure and weather conditions, which can impact sales, installation and system productivity, vary by market. For example, markets in California typically have higher utility rates than markets in the Eastern United States. As a result, systems in California typically have a higher retained value than systems in the Eastern United States. However, we are entitled to receive SRECs and other state incentives in many Eastern states that are not available in Western United States. Although the impact of such incentives is not reflected in the retained value of the associated systems, they do generate value for us. As a result our financial and operating results will be affected by the geographic mix of the systems we install.

In May 2015, we entered into the C&I market with the closing of a tax equity fund specific to the C&I segment. The C&I segment encompasses businesses ranging from large, national retailers, municipal governments and smaller, regional opportunities. As of December 31, 2015, we have contracts in place with commercial off-takers but no projects have been accepted into the investment fund. The development cycle of C&I projects is typically longer than the development of residential solar energy systems due to complexities associated with significantly larger system sizes and installations. The project approval process by the fund investor has been delayed due to uncertainty related to the proposed SunEdison acquisition, and we may face continued delays following the termination of the Merger Agreement. The total available committed capital under the fund is $150.0 million, which is expected to be contributed starting in the second quarter of 2016.

Sales Channels

We place our integrated residential solar energy systems through a sales organization that primarily uses a direct-to-home sales model. We believe that a high-touch, customer-focused selling process is important before, during and after the sale of our products to maximize our sales success. The members of our sales force typically reside and work within the market they serve. We also generate a significant amount of sales through customer referrals. We have found that customer referrals increase in relation to our penetration in a particular market and

shortly after entering a new market become an increasingly effective way to market our solar energy systems. We employ a direct-to-home sales model because we believe it improves sales effectiveness. Currently, we ask potential customers to sign long-term customer contracts at no upfront cost to them and prior to us conducting a formal assessment of the home, designing a system, obtaining permits and other actions required prior to installation. As may be expected with a direct sales model, a large number of potential customers who sign long-term customer contracts ultimately elect not to have a system installed or the potential customers fail to meet our underwriting standards. We believe there are opportunities to improve the rate at which potential customers ultimately move forward through system installation, including by conducting the formal assessment of the home on the day the contract is signed, or requiring potential customers to commit to a modest upfront fee that would be credited against payments under our contracts with them. We are currently evaluating such changes to determine if they can improve our signing to installation rate.

In addition to direct sales, we sell to customers through our inside sales team and through our retail channel that reaches new customers at kiosks in malls and at event locations. We also continue to explore opportunities to sell solar energy systems to customers through a number of other distribution channels, including relationships with home builders, home improvement stores, large construction, electrical and roofing companies and other third parties that have access to large numbers of potential customers. We believe that such initiatives will contribute to our revenue growth. The potential impact of these initiatives on our financial results, however, is uncertain because while the price per kilowatt we can charge may be lower, we expect to benefit from more favorable cost structures by virtue of the larger nature of the installations.

Operations as a Stand-Alone Company

Since inception, we have relied on the administrative and operational support of our sister company Vivint Inc., or Vivint, to run our business. Some of the Vivint resources we have historically used included office space, information and technology resources and systems, purchasing services, operational and fleet services and marketing services. Our use of Vivint services has steadily decreased since 2013 and now consists primarily of IT support. Our historical financial information does not necessarily reflect what our financial position, results of operations, cash flows or costs and expenses would have been had we operated separately from Vivint during the historical periods presented in this report. The historical costs and expenses reflected in our consolidated financial statements include charges to certain corporate functions historically provided to us by Vivint. We and Vivint believe these charges are reasonable reflections of the historical utilization levels of these services in support of our business.

Although we have made and are continuing to make investments to support our near and longer-term growth as a fully independent company, we will continue to have an ongoing relationship with Vivint which will provide services consisting primarily of IT support. Our continued expansion may exceed the capacity that Vivint is able to provide under the terms of such agreement. If Vivint is unable to satisfy its obligations thereunder on a timely basis, we may face difficulties in providing these services internally or implementing acceptable, substitute arrangements with third-party providers. Furthermore, as we transition IT systems from Vivint and rely on our own infrastructure, we have experienced and may continue to experience interruptions or inefficiencies that adversely affect our operations, customer satisfaction and increase our costs.

Components of Results of Operations

Revenue

We classify and account for our long-term power purchase agreements as operating leases, and recognize revenue from these contracts based on the actual amount of power generated at rates specified under the contracts. In 2014, we began offering solar energy systems to customers pursuant to legal-form leases. Depending on the level of the guarantee, we either recognize revenue based on the amount of power generated at rates specified under the contracts and establish a reserve for those lease contracts for which we may have to make a payment at the end of each year to the customer if the solar energy systems do not meet a guaranteed production level in the prior 12-month period or we treat as an operating lease and recognize revenue on a straight-line basis over the lease term. In 2015, we began offering our customers the option to purchase solar energy systems. As these sales are not structured as long-term customer contracts, revenue is recognized when systems are interconnected to local power grids and granted permission to operate, assuming all other revenue recognition criteria are met.

We consider the proceeds from solar energy system rebate incentives offered by certain state and local governments to form part of the payments under our operating leases and recognize such payments as revenue over the contract term. We record revenue from our operating leases over the term of our long-term customer contracts, which is typically 20 years. We also apply for and receive SRECs in certain jurisdictions for power generated by our solar energy systems.

We generally recognize revenue related to the sale of SRECs upon delivery. The market for SRECs is extremely volatile and sellers are often able to obtain better unit pricing by selling a large quantity of SRECs. As a result, we may sell SRECs infrequently, at opportune times and in large quantities and the timing and volume of our SREC sales may lead to fluctuations in our quarterly results. For the years ended December 31, 2015, 2014 and 2013, approximately 22%, 10% and 5% of our revenue was attributable to SREC sales, and less than 1% of our revenue was attributable to state and local rebates and incentives in all periods presented. There were no C&I revenues recognized in the periods presented. We also recognize revenue related to the sale of photovoltaic installation devices and software products, a portion of which has consisted of post-contract customer support in prior periods. The following table sets forth our revenue by major product (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Revenue:			
Operating leases and incentives	$61,150	$21,688	$5,864
Photovoltaic installation devices and software	2,270	3,213	—
Solar energy system sales	762	357	306
Total revenue	$64,182	$25,258	$6,170

Operating Expenses

Cost of Revenue. Cost of operating leases and incentives is comprised of the depreciation of the cost of the solar energy systems, which are depreciated for accounting purposes over 30 years; the amortization of initial direct costs, which are amortized over the term of the long-term customer contract; and the indirect costs related to the processing, account creation, design, installation, interconnection and servicing of solar energy systems, which are not capitalized, such as personnel costs not directly associated to a solar energy system installation, warehouse rent, utilities and fleet vehicle executory costs. Under our direct sales model, a vast majority of payments to our direct sales personnel consist of commissions attributable to long-term customer contract acquisition. Capitalized initial direct costs consist of these commissions and other customer acquisition expenses. The cost of operating leases and incentives related to the sales of SRECs is limited to broker fees, which are only paid in connection with certain transactions. Accordingly, the sale of SRECs in a quarter favorably impacts our operating results for that period.

Cost of solar energy system and product sales consists of direct and indirect material and labor costs for solar energy systems. It also consists of materials, personnel costs, depreciation, facilities costs, other overhead costs and infrastructure expenses associated with the manufacturing of the photovoltaic installation devices and software products.

Sales and Marketing Expenses. Sales and marketing expenses include personnel costs, such as salaries, benefits, bonuses and stock-based compensation for our corporate sales and marketing employees and exclude costs related to our direct sales personnel that are accounted for as cost of revenue. Sales and marketing expenses also include advertising, promotional and other marketing-related expenses; certain allocated corporate overhead costs related to facilities and information technology; travel and professional services.

Research and Development. Research and development expense is comprised primarily of salaries and benefits and other costs related to the development of photovoltaic installation devices and software products and the development of other solar technologies. Research and development costs are charged to expense when incurred.

General and Administrative Expenses. General and administrative expenses include personnel costs, such as salaries, bonuses and stock-based compensation related to our general and administrative personnel; professional fees related to legal, human resources, accounting and structured finance services; travel; and allocated facilities and information technology costs. Our financial results have included charges for the use of services provided by Vivint, including shared facilities in 2014. These costs were based on the actual cost incurred by Vivint without mark-up. The charges to us may not be representative of what the costs would have been had we operated separately from Vivint during the periods presented. However, we believe the amounts charged are representative of the incremental cost to Vivint to provide these services to us. We continue to use information and technology resources and systems administered by Vivint; however, we plan to be completely transitioned to our own systems by the end of 2016.

Amortization of Intangible Assets. We have recorded intangible assets at their fair value related to acquisitions in which we have been involved. Such intangible assets are amortized over their estimated useful lives. In future periods, we expect amortization of intangible assets to decrease as our customer contracts asset became fully amortized in 2015.

Impairment of Intangible Assets. During 2015, we discontinued the external sale of two Vivint Solar Labs products. This discontinuance was considered an indicator of impairment, and we performed a review regarding the recoverability of the carrying value of the related intangible assets. As a result of this review, we recorded an impairment charge of $4.5 million in the first quarter of 2015.

Non-Operating Expenses

Interest Expense. Interest expense primarily consists of the interest charges associated with our indebtedness including the amortization of deferred financing costs and the interest component of capital lease obligations. In the future we may incur additional indebtedness to fund our operations and our interest expense would correspondingly increase.

Other (Income) Expense. Other (income) expense consists primarily of interest and penalties associated with employee payroll withholding tax payments which were not paid in a timely manner offset by the abatement of a portion of such penalties from prior periods.

Income Tax (Benefit) Expense. All of our business is conducted in the United States, and therefore income tax (benefit) expense consists of current and deferred income taxes incurred in U.S federal, state and local jurisdictions.

Cost Structure

During the nine months of the pendency of the potential SunEdison acquisition, our operating plans were based on being part of a larger organization, which would have required a different headcount and cost structure than if we had operated as a standalone entity. During the pendency of the potential acquisition, we were restricted in our ability to obtain financing. As a result, we deferred pursuit of various financing options, including acquiring additional investment funds and incurring additional debt. Our executive leadership team, together with our board of directors, is re-evaluating our operating plan in light of the termination of the Merger Agreement and our financing needs. As a result, as of the date of this report we are uncertain as to what level of growth, resources and ultimately costs that may be incurred in future business operations.

Net Income Available (Loss Attributable) to Stockholders

We determine the net income available (loss attributable) to stockholders by deducting from net loss the net loss attributable to non-controlling interests and redeemable non-controlling interests. The net loss attributable to non-controlling interests and redeemable non-controlling interests represents the investment fund investors' allocable share in the results of operations of the investment funds that we consolidate.

We have determined that the legal provisions in the contractual arrangements of the investment funds in which there is a non-controlling interest represent substantive profit-sharing arrangements, where the allocation to the partners differ from the stated ownership percentages. We have further determined that the appropriate methodology for attributing income and loss to the non-controlling interests and redeemable non-controlling interests each period is a balance sheet approach using the hypothetical liquidation at book value, or HLBV, method. Under the HLBV method, the amounts of income and loss attributed to the non-controlling interests and redeemable non-controlling interests in the consolidated statements of operations reflect changes in the amounts the fund investors would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreements of these funds, assuming the net assets of the respective investment funds were liquidated at recorded amounts determined in accordance with GAAP. The fund investors' interest in the results of operations of these investment funds is determined as the difference in the fund investors' claim under the HLBV method at the start and end of each reporting period, after taking into account any capital transactions between the fund and the fund investors. For all of our investment funds, the application of HLBV is performed consistently. However, the results of that application and its impact on the income or loss allocated between us and the non-controlling interests and redeemable non-controlling interests depend on the respective funds' specific contractual liquidation provisions. For all of our investment funds, the HLBV results are generally affected by, among other factors, the tax attributes allocated to the fund investors including tax bonus depreciation and investment tax credits or U.S. Treasury grants received in lieu of the investment tax credits, the amount of preferred returns that have been paid to the fund investors by the investment funds, and the allocation of taxable income or losses in a liquidation scenario.

Regardless of the investment fund structures, the contractual liquidation provisions of our existing funds in which there is a non-controlling interest provide that the allocation percentages between us and the investor change, or "flip," under certain circumstances. Prior to the point at which the allocation percentage flips, the investor is entitled to receive a contractually agreed upon allocation of the value generated by the solar energy systems. The allocation of cash payments received from customers may differ from the allocation of other tax benefits. Afterwards, we are entitled to receive the majority of the value generated by the solar energy systems. The difference between our current inverted lease structures and our current partnership structures that drives a significant impact on our results from the application of the HLBV method is how the flip point is determined. The result of this difference is described in detail in the following paragraphs.

For our existing investment funds that have adopted the partnership structure, the flip point is tied to the achievement of the fund investor's targeted after tax rate of return. The receipt of tax benefits by the fund investor count towards the achievement of such target, which reduces the amount distributable to the fund investor in a hypothetical liquidation under these funds' contractual liquidation provisions. This generally results in a net loss attributable to the fund investor in the period in which these tax benefits are received as a result of our application of the HLBV method.

For our existing investment funds that have adopted the inverted lease structure, the flip point is typically tied to the passage of a period of time that corresponds to the expiration of the recapture period associated with ITCs. An investor in a fund with an inverted lease fund structure will receive tax benefits similar to an investor in a fund that has adopted a partnership structure; however, unlike the partnership investment fund structure, the receipt of tax benefits by the fund investor does not impact the amount distributable to the fund investor in a hypothetical liquidation under these funds' contractual liquidation provisions. At the flip point, which typically corresponds to the end of the ITC recapture period, the fund investor's claims on the net assets of the investment fund generally decreases. This is expected to result in a net loss attributable to the fund investor in the period when the flip occurs as a result of our application of the HLBV method.

These differences are a result of the specific contractual provisions for each of our existing funds and are not necessarily indicative of terms for our future partnership or inverted lease structures. Future investment funds may contain different features than those that we currently employ and, as a result, would not necessarily impact the HLBV calculation and resulting allocation of net income or loss in the same way that our existing funds do.

The HLBV calculation for both fund structures is also impacted by the difference between the cash received by us from the investment funds and the carrying value of the solar energy systems contributed to the investment funds. The purchase price paid for solar energy systems by an investment fund is based on the fair market value, as determined by an independent appraiser. As we consolidate both the subsidiary that develops the solar energy systems and the investment fund, the sales of the solar energy systems are considered transactions under common control and are therefore reflected at their historical cost, or their carryover basis. Cash received in excess of the installed purchased solar energy systems' carryover basis is treated as deemed distributions from the investment fund to us. In most cases, any excess of the purchase price over the carryover basis of the solar energy systems would result in allocations of income to us.

The HLBV calculation for both fund structures may also be affected by the timing of an investor's cash contribution to the investment fund relative to the timing of the contribution or sale of the solar energy systems to the applicable investment fund. A portion of the solar energy systems purchased by, or contributed to, an investment fund are not installed at the time of purchase or contribution and therefore do not have any carryover basis allocated to them. Our wholly owned subsidiary has an obligation to purchase, install and provide the solar energy system equipment to an investment fund for any in-progress projects that were previously purchased by such fund. If our wholly owned subsidiary does not ultimately provide the investment fund with the solar energy systems that it purchased, it is required to refund the purchase price to the investment fund. In these specific cases, we determined that the portion of the cash purchase price paid by an investment fund that relates to in-progress projects should be recorded as a receivable by the investment fund, representing the investment fund's right to receive solar panels and related equipment for solar energy systems that are installed after the project is purchased by the investment fund. Given that our subsidiary controls the investment fund, we have accounted for the receivable balance as a reduction in the investment fund's members' equity in accordance with GAAP. Initially this may result in allocations of losses amongst the partners, as the GAAP equity balance is less than the tax capital account. The allocations of such losses amongst the partners follow the contractual liquidation provisions of the partnership agreements. When such solar energy systems are subsequently installed, the systems are recorded at their carryover basis as a common control transaction and the receivable balance is eliminated. With the elimination of the receivable, the investment fund's member's equity is increased to the extent of the carrying amount of the assets contributed, which results in the reversal of a portion of the prior allocation of losses. In most cases, the reversal of such losses occurs within a short period of time, approximately three to six months. As discussed above, the difference between the receivable balance eliminated and the carryover basis of the installed solar energy systems is treated as deemed distributions from the investment fund to us, and as a result, that portion of the prior allocation of losses is not reversed over time.

If the redemption value of our redeemable non-controlling interests exceeds their carrying value after attribution of income or loss under the HLBV method in any period, we will make an additional attribution of income to our redeemable non-controlling interests such that their carrying value will at least equal the redemption value.

We apply the HLBV method consistently across our investment funds in which we have an equity interest. However, the impact on non-controlling interests and redeemable non-controlling interests may vary significantly period-to-period depending on the structure of the funds we enter into, the contractual liquidation provisions of such investment funds, the age of such investment funds and the timing of an investor's cash contribution to the investment fund relative to the timing of the contribution or sale by us of the solar energy system to the applicable investment fund.

50

Results of Operations

The results of operations presented below should be reviewed in conjunction with the consolidated financial statements and related notes included elsewhere in this report.

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenue:			
Operating leases and incentives	$61,150	$21,688	$5,864
Solar energy system and product sales	3,032	3,570	306
Total revenue	64,182	25,258	6,170
Operating expenses:			
Cost of revenue—operating leases and incentives	131,213	67,984	19,004
Cost of revenue—solar energy system and product sales	1,762	1,997	123
Sales and marketing	48,078	21,869	7,348
Research and development	3,901	1,892	—
General and administrative	92,664	78,899	16,438
Amortization of intangible assets	13,172	14,911	14,595
Impairment of intangible assets	4,506	—	—
Total operating expenses	295,296	187,552	57,508
Loss from operations	(231,114)	(162,294)	(51,338)
Interest expense	12,568	9,323	3,144
Other (income) expense	(154)	1,372	1,865
Loss before income taxes	(243,528)	(172,989)	(56,347)
Income tax expense (benefit)	9,737	(7,070)	123
Net loss	(253,265)	(165,919)	(56,470)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(266,345)	(137,036)	(62,108)
Net income available (loss attributable) to common stockholders	$13,080	$(28,883)	$5,638

Comparison of Years Ended December 31, 2015 and 2014

Revenue

	Year Ended December 31,		$ Change 2015 from 2014
	2015	2014	
	(In thousands)		
Total revenue	$64,182	$25,258	$38,924

The increase in total revenue of $38.9 million was primarily the result of a $27.9 million increase in operating lease revenue as the total megawatts of solar energy systems placed in service increased 134%. In addition, revenue from

the sale of SRECs increased $11.3 million primarily related to the increased solar energy systems in service and solar energy system sales increased by $0.4 million. These increases were partially offset by a $0.9 million decrease in photovoltaic device and software revenue as a result of discontinuing external sales of certain Vivint Solar Labs products.

Operating Expenses

	Year Ended December 31,		$ Change 2015 from 2014
	2015	2014	
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$131,213	$67,984	$63,229
Cost of revenue—solar energy system and product sales	1,762	1,997	(235)
Sales and marketing	48,078	21,869	26,209
Research and development	3,901	1,892	2,009
General and administrative	92,664	78,899	13,765
Amortization of intangible assets	13,172	14,911	(1,739)
Impairment of intangible assets	4,506	—	4,506
Total operating expenses	$295,296	$187,552	$107,744

Cost of Revenue—operating leases and incentives. The $63.2 million increase was in part due to a $33.8 million increase in compensation and benefits primarily due to employee headcount growth and the increase in installed solar energy systems related to solar energy system installation activities. Installation and operations employee headcount increased 53%. Depreciation and amortization of solar energy systems also increased $14.2 million primarily due to the increase in installed solar energy systems. Fleet vehicle maintenance, information technology, warehouse and other installation costs increased $10.1 million due to increased installations and an approximately 70% increase in warehouses in operation. Stock-based compensation increased $2.0 million primarily due to a performance condition being met in 2015. Administrative costs increased $1.8 million primarily due to employee headcount growth and an increase in miscellaneous office expenses, such as office and personnel supplies and telecommunications. Additionally, accrued losses on solar energy system removals were $1.0 million in 2015.

Sales and Marketing Expense. The $26.2 million increase was primarily due to our continued efforts to grow the business by entering into new markets, opening new sales offices and hiring sales and marketing personnel. Compensation and benefits increased $10.8 million due to headcount growth of 82%. Stock-based compensation increased $9.9 million primarily due to the grant and vesting of shares issued to sales personnel under the LTIP and a performance condition being met in 2015. Additionally, sales and marketing management costs increased $3.7 million primarily due to increases in contracted services and customer cancellations; and marketing and brand awareness activity costs increased by $1.6 million.

Research and Development Expense. The $2.0 million increase was primarily due to a 129% growth in research and development employee headcount due to additional development activities to optimize and accelerate business growth.

General and Administrative Expense. The $13.8 million increase included a $10.5 million increase in costs related to the proposed acquisition by SunEdison, an $8.3 million increase in compensation and benefits due to general and administrative employee headcount growth of 68%, and a $1.3 million increase in accrued legal settlements. Additionally, other administrative costs, including banking service charges, new office equipment and franchise tax expense increased $3.2 million; depreciation increased $2.2 million due to growth in equipment and leasehold improvements; and insurance costs increased $1.8 million. These increases were partially offset by a $10.6 million decrease in stock-based compensation primarily due to a charge related to the sale of stock to two directors in 2014 and a $0.6 million decrease in professional services fees related to the initiation and servicing of tax equity investment funds. In addition, professional fees decreased $2.4 million resulting from higher costs that were incurred in 2014 as

we prepared to operate as a public company that were partially offset by software configuration costs in 2015 as we transition to standalone technology systems.

Amortization of Intangible Assets. The $1.7 million decrease was primarily due to a $1.8 million decrease in amortization related to our customer contracts intangible asset as it became fully amortized in 2015.

Impairment of Intangible Assets. An impairment charge of $4.5 million was recorded in 2015 to write down the value of intangible assets associated with two Vivint Solar Labs products for which external sales were discontinued in 2015. See Note 7—Intangible Assets and Goodwill for additional information.

Non-Operating Expenses

	Year Ended December 31,		$ Change 2015 from 2014
	2015	2014	
	(In thousands)		
Interest expense	$12,568	$9,323	$3,245
Other (income) expense	(154)	1,372	(1,526)

Interest Expense. Interest expense increased $3.2 million primarily as the cost of financing additional borrowings year over year.

Other (Income) Expense. The $1.5 million change from other expense to income was due to a decrease in incurred tax-related interest and penalties and to an abatement of a portion of prior period tax penalties.

Income Taxes

	Year Ended December 31,		$ Change 2015 from 2014
	2015	2014	
	(In thousands)		
Income tax expense (benefit)	$9,737	$(7,070)	$16,807

The $16.8 million change from income tax benefit to expense was primarily attributable to the effect of non-controlling interests and redeemable non-controlling interests and increased amortization of the prepaid tax asset which were partially offset by an increase in the domestic production activities deduction.

Net Loss Attributable to Non-controlling Interests and Redeemable Non-controlling Interests

	Year Ended December 31,		$ Change 2015 from 2014
	2015	2014	
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$(266,345)	$(137,036)	$(129,309)

Net loss attributable to non-controlling interests and redeemable non-controlling interests was allocated using the HLBV method. Generally, gains and losses that are allocated to the fund investors relate to hypothetical liquidation gains and losses resulting from differences between the net assets of the investment fund and the partners' respective tax capital accounts in the investment fund. Losses allocated to the fund investors were also driven by a reduction in certain fund investors' claims on net assets due to the agreement of the partnership to take bonus depreciation allowances under Internal Revenue Code Section 168(k), as well as the receipt of ITCs that were primarily allocated to fund investors.

Comparison of Years Ended December 31, 2014 and 2013

Revenue

	Year Ended December 31,		$ Change 2014 from 2013
	2014	2013	
	(In thousands)		
Total revenue	$25,258	$6,170	$19,088

The increase in total revenue of $19.1 million was primarily the result of an increase of $13.4 million related to operating lease and incentives and an increase of $2.3 million in the sale of SRECs as the number of installed solar energy systems in service increased 154%. In addition, subsequent to the Solmetric acquisition in January 2014, we recognized revenue of $3.2 million related to the sale of photovoltaic installation devices and software products. We did not recognize revenue related to the sale of photovoltaic installation devices and software products in 2013 as the Solmetric acquisition occurred in January 2014.

Operating Expenses

	Year Ended December 31,		$ Change 2014 from 2013
	2014	2013	
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$67,984	$19,004	$48,980
Cost of revenue—solar energy system and product sales	1,997	123	1,874
Sales and marketing	21,869	7,348	14,521
Research and development	1,892	—	1,892
General and administrative	78,899	16,438	62,461
Amortization of intangible assets	14,911	14,595	316
Total operating expenses	$187,552	$57,508	$130,044

Cost of Revenue. The increase in cost of revenue—operating leases and incentives of $49.0 million was in part due to a $21.6 million increase in compensation and benefit costs that were expensed in the period related to the design, installation and interconnection of solar energy systems to the power grid primarily due to growth in installation and operations employee headcount of 127% in 2014 and the increase in the number of installed solar energy systems. Other direct installation costs increased $6.8 million and were comprised of items such as rentals and purchases of tools and equipment, inventory obsolescence, insurance and supplies. In addition, depreciation and amortization of solar energy systems increased $6.1 million primarily due to the increase in the number of installed solar energy systems consistent with the significant growth in revenue over these periods. Facility and information technology expenses increased $5.9 million due to our increased headcount and increased utilization of office space by our employees. Other factors contributing to the increase in these expenses were the increases in fleet vehicle maintenance, insurance, warehouse and other related costs of $4.9 million; travel costs related to design and installation activities of $1.4 million; and stock-based compensation of $1.1 million.

The increase in cost of revenue—solar energy system and product sales of $1.9 million was primarily due to the costs of photovoltaic installation software products following the Solmetric acquisition in January 2014.

Sales and Marketing Expense. The increase in sales and marketing expense of $14.5 million was attributable primarily to our continued efforts to grow our business by entering into new markets, opening new sales offices in various locations and increased hiring of sales and marketing personnel, resulting in a sales and marketing employee headcount increase of 120% in 2014. Additionally, the increase in expenses was primarily due to increased compensation and benefits expense of $7.2 million due to the increased headcount, including an increase of $0.8 million related to stock-based compensation; an increase in costs related to advertising, promotional and other marketing-related expenses of $2.7 million; an increase in travel and housing expenses of $2.3 million; and an increase in sales and marketing related administrative costs of $1.7 million.

Research and Development Expense. The $1.9 million increase in research and development expense was attributable to photovoltaic installation device and software product development in 2014. Prior to the Solmetric acquisition in January 2014, we did not incur any research and development expenses.

General and Administrative Expense. The increase in general and administrative expenses of $62.5 million primarily resulted from an increase in professional service fees and stock-based compensation expense. Our professional service fees increased $17.4 million driven primarily from costs related to our initial public offering and preparations to become a public reporting company. Stock-based compensation increased $21.5 million, of which $14.8 million

related to purchases of our stock by two of our directors in September 2014 (see Note 12—Redeemable Non-Controlling Interests, Equity and Preferred Stock for more details on this transaction). Our compensation and benefits increased $12.8 million as our employee headcount increased by 310% in 2014 across our general and administrative functions to a level necessary to support the growth of the business. Fees related to the initiation of tax equity investment funds increased by $6.6 million as we closed seven tax equity investment funds during 2014.

Amortization of Intangible Assets. The increase in amortization of intangible assets relates directly to the intangible assets acquired as part of the Solmetric Acquisition.

Non-Operating Expenses

	Year Ended December 31,		$ Change 2014 from 2013
	2014	2013	
	(In thousands)		
Interest expense	$9,323	$3,144	$6,179
Other (income) expense	1,372	1,865	(493)

Interest Expense. The increase in interest expense of $6.2 million was primarily due to additional borrowings in 2014. Of the $6.2 million increase, $4.9 million related to our term loan credit facility and the Aggregation Facility entered into with Bank of America in 2014, and $1.5 million related to our revolving lines of credit with Vivint. Of the $4.9 million in interest expense related to our credit facilities with Bank of America, $2.2 million related to the amortization of loan origination fees. These increases in interest expense were partially offset by a decrease of $0.2 million in interest expense related to the revolving line of credit that was terminated in June 2013.

Other Expense. The decrease in other expenses of $0.5 million was primarily due to a decrease in interest and penalties associated with payroll taxes from 2012 and 2013 that were not paid in a timely manner and which were paid during 2014.

Income Taxes

	Year Ended December 31,		$ Change 2014 from 2013
	2014	2013	
	(In thousands)		
Income tax expense (benefit)	$(7,070)	$123	$(7,193)

The change in income tax (benefit) expense of $7.2 million to a $7.1 million income tax benefit was primarily due to an increase in pre-tax book losses in proportion to permanent tax adjustments, such as non-controlling interests and redeemable non-controlling interests, tax credits and other nondeductible expenses.

Net Loss Attributable to Non-controlling Interests and Redeemable Non-controlling Interests

	Year Ended December 31,		$ Change 2014 from 2013
	2014	2013	
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$(137,036)	$(62,108)	$(74,928)

Net loss attributable to non-controlling interests and redeemable non-controlling interests was allocated using the HLBV method. Generally, gains and losses that are allocated to the fund investors relate to hypothetical liquidation gains and losses resulting from differences between the net assets of the investment fund and the partners' respective tax capital accounts in the investment fund. Losses allocated to the fund investors were also driven by a reduction in certain fund investors' claims on net assets due to the agreement of the partnership to take bonus depreciation allowances under Internal Revenue Code Section 168(k), as well as the receipt of ITCs that were primarily allocated to fund investors.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. GAAP require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flows and related footnote disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our future consolidated financial statements will be affected to the extent that our actual results materially differ from these estimates.

We believe that the assumptions and estimates associated with our principles of consolidation, investment tax credits, revenue recognition, solar energy systems, net, impairment of long-lived assets, goodwill impairment analysis, the recognition and measurement of loss contingencies, stock-based compensation, provision for income taxes and non-controlling interests and redeemable non-controlling interests have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Principles of Consolidation

We consider each of our investment funds to be a separate variable interest entity, or VIE. We use a qualitative approach in assessing the consolidation requirement for these VIEs. This approach focuses on determining whether we have the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether we have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. All of these determinations involve significant management judgments and estimates. We have determined that we are the primary beneficiary in all but one of our operational VIEs, which we consolidate. We evaluate our relationships with the VIEs on an ongoing basis to ensure that we continue to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Investment Tax Credits

We apply for and receive investment tax credits under Section 48(a) of the Internal Revenue Code. The amount for the investment tax credit is equal to 30% of the value of eligible solar property. We receive minimal allocations of investment tax credits as the majority of such credits are allocated to the fund investors. Some of our investment funds obligate us to make certain fund investors whole for losses that the investors may suffer in certain limited circumstances resulting from the disallowance or recapture of investment tax credits as a result of the Internal Revenue Service's, or the IRS, assessment of the fair value of such systems. We have concluded that the likelihood of a recapture event is remote and consequently has not recorded any liability in the consolidated financial statements for any potential recapture exposure. If it becomes probable that a U.S. Treasury grant is required to be repaid, we will assess whether it is necessary to derecognize any grant (or portion thereof) in accordance with Account Standards Codification section 450.

Revenue Recognition

We sell the electricity that our solar energy systems produce through long-term power purchase agreements, we lease our solar energy systems through long-term leases or we sell solar energy systems to customers. Prior to 2014, all of our long-term customer contracts were structured as power purchase agreements. In 2014, we began offering leases to residential customers. In 2015, we began offering our customers the option to purchase solar energy systems. We also generate revenue through sales of SRECs, photovoltaic installation devices and software products and receipt of rebate incentives. We recognize revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery or performance has occurred, (3) the sales price is fixed or determinable and (4) collectability is reasonably assured. Revenue associated with power purchase agreements and solar energy system leases, SRECs and rebate incentives are included within operating leases and incentives revenue. Revenue from the sale of photovoltaic installation devices and software products and solar energy systems sales is recognized within solar energy system and product sales. In the first quarter of 2015, we decided to discontinue the external sales of our photovoltaic installation software products.

Operating Leases and Incentives Revenue

Our primary revenue-generating activity consists of entering into long-term power purchase agreements with residential customers, under which the customer agrees to purchase all of the power generated by the solar energy

system for the term of the contract, which is 20 years. The agreement includes a fixed price per kilowatt hour with a fixed annual price escalation percentage (to address the impact of inflation over the period of the contract). Customers have not historically been charged for installation or activation of the solar energy system. For all power purchase agreements, we assess the probability of collectability on a customer-by-customer basis through a credit review process that evaluates their financial condition and ability to pay.

We have determined that power purchase agreements should be accounted for as operating leases after evaluating and concluding that none of the following capitalized lease classification criteria are met: no transfer of ownership or bargain purchase option exists at the end of the lease, the lease term is not greater than 75% of the useful life or the present value of minimum lease payments does not exceed 90% of the fair value at lease inception. As customer payments under a power purchase agreement are dependent on power generation, they are considered contingent rentals and are excluded from future minimum annual lease payments. Revenue from power purchase agreements is recognized based on the actual amount of power generated at rates specified under the contracts, assuming the other revenue recognition criteria discussed above are met.

In 2014, we began offering solar energy system to customers pursuant to legal-form leases. The customer agreements are structured as legal-form leases due to local regulations that can be read to prohibit the sale of electricity pursuant to our standard power purchase agreement. Pursuant to the lease agreements, the customers' monthly payments are pre-determined fixed monthly amounts and include an annual fixed percentage price escalation to address the impact of inflation over the period of the contracts, which is 20 years. We provide our legal-form lease customers a performance guarantee, under which we agree to potentially refund a portion of the fixed lease payments at the end of each year to the customer if the solar energy systems do not meet a guaranteed production level in the prior 12-month period.

The guaranteed production levels have varying terms. Dependent on the level of the production guarantee, we either (1) recognize the monthly lease payments as revenue and record a solar energy performance guarantee liability due to the contingent nature of the lease payments, or (2) straight-line the contracted payments over the initial term of the lease. Solar energy performance guarantees were de minimis as of December 31, 2015.

We apply for and receive SRECs in certain jurisdictions for power generated by our solar energy systems. When SRECs are granted, we typically sell them to other companies directly, or to brokers, to assist them in meeting their own mandatory emission reduction or conservation requirements. We recognize revenue related to the sale of these certificates upon delivery, assuming the other revenue recognition criteria discussed above are met.

We consider upfront rebate incentives earned from our solar energy systems to be minimum lease payments and recognize revenue for those payments on a straight-line basis over the life of the long-term customer contracts, assuming the other revenue recognition criteria discussed above are met.

Operating leases and incentives revenue is recorded net of sales tax collected.

Lease Pass-Through Arrangement

In 2015, a lease pass-through fund arrangement became operational under which we contribute solar energy systems and the investor contributes cash. Contemporaneously, our subsidiary entered into a master lease arrangement to lease the solar energy systems and the associated customer lease or power purchase agreements to the fund investor. Our subsidiary makes a tax election to pass-through the investment tax credits, or ITCs, that accrue to the solar energy systems to the fund investor, who as the legal lessee of the property is allowed to claim the ITCs under Section 50(d)(5) of the Internal Revenue Code and the related regulations.

Under this arrangement, the fund investor makes a large upfront lease payment to our subsidiary and subsequently makes periodic lease payments. We allocate a portion of the aggregate payments received from the fund investor to the estimated fair value of the assigned ITCs. Our subsidiary has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly, we recognize ITC revenue as the recapture provisions lapse assuming all other revenue recognition criteria have been met. The amounts allocated to ITCs are initially recorded as deferred revenue in the consolidated balance sheet, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives in the consolidated statements of operations based on the anniversary of each solar energy system's placed in service date over the next five years. As of December 31, 2015, no ITC revenue has been recognized.

Solar Energy System and Product Sales

In 2015, we began offering our customers the option to purchase solar energy systems. As these sales are not structured as long-term customer contracts, revenue is recognized when systems are interconnected to local power grids and granted permission to operate, assuming all other revenue recognition criteria are met.

Revenue from the sale of photovoltaic installation devices and software products is recognized upon delivery of the product to the customer assuming the remaining revenue recognition criteria discussed above have been met.

Multiple-Element Arrangements

Subsequent to the acquisition of Solmetric in January 2014 and prior to the discontinuance of external sales of the SunEye and PV Designer products, we entered into multiple-element arrangements typically involving sales of (1) photovoltaic installation hardware devices containing software essential to the hardware product's functionality and (2) stand-alone software. We allocated revenue based on our best estimate of selling price, which was determined by considering multiple factors including, but not limited to, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The consideration allocated to the delivered photovoltaic device is recognized at the time of shipment provided that the four general revenue recognition criteria discussed above have been met.

Solar Energy Systems, Net

Solar energy systems are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

	Useful Lives
System equipment costs	30 years
Initial direct costs related to solar energy systems	Lease term (20 years)

We commence depreciation of our solar energy systems once the respective systems have been installed and interconnected to the power grid.

The determination of the useful lives of assets included within solar energy systems involves significant management judgment.

Impairment of Long-Lived Assets and Indefinite-Lived Intangible Assets

The carrying amounts of our long-lived assets, including solar energy systems, property and intangible assets subject to depreciation and amortization, are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated. Factors that we consider in deciding when to perform an impairment review include significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over its remaining life. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. If the useful life is shorter than originally estimated, we amortize the remaining carrying value over the new shorter useful life.

In February 2015, we decided to discontinue the external sales of two Vivint Solar Labs products. This discontinuance was considered an indicator of impairment, and a review regarding the recoverability of the carrying value of the related intangible assets was performed. As a result of this review, we recorded a total impairment charge of $4.5 million for the year ended December 31, 2015. See Note 7—Intangible Assets and Goodwill.

Goodwill Impairment Analysis

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. We have recorded goodwill as a result of the acquisitions we have been involved in. As of December 31, 2015, our company consists of two operating segments: (1) Residential and (2) C&I. As C&I was created internally in 2015 and our goodwill was recorded prior to 2015, all goodwill remains with the Residential operating segment. As such, our goodwill impairment test is based on a single operating segment and reporting unit structure. We perform our annual impairment test of goodwill as of October 1st of each fiscal year or whenever events or circumstances change or occur that would indicate that goodwill might be impaired. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in the business climate, unanticipated competition, loss of key personnel, significant changes in the manner we use the acquired assets or the strategy for the overall business, significant negative industry or economic trends or significant underperformance relative to historical operations or projected future results of operations.

In conducting the impairment test, we first assess qualitative factors, including those stated previously, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for

determining whether it is necessary to perform the two-step goodwill impairment test. If the qualitative step is not passed, we perform a two-step impairment test whereby in the first step we must compare the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying value of the goodwill. Any excess of the goodwill carrying value over the implied fair value is recognized as an impairment loss.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If we determine that a loss is possible and the range of the loss can be reasonably determined, then we disclose the range of the possible loss. We regularly evaluate current information available to determine whether an accrual is required, an accrual should be adjusted or a range of possible loss should be disclosed.

Stock-Based Compensation

Expense related to stock-based compensation granted to employees is measured and recognized in the financial statements based on the grant-date fair value of the awards. The fair value of each time-based option award is estimated on the grant date using the Black-Scholes-Merton stock option pricing valuation model. The fair value of each performance-based employee stock option is estimated on the date of grant using the Monte Carlo simulation model. The fair value of each restricted stock award and performance share unit award is determined as the closing price of our stock on the date of grant. The stock-based compensation expense, net of forfeitures, is recognized on an accelerated attribution basis over the requisite service period of an award, which is generally the award's vesting period.

Stock-based compensation expense for equity instruments issued to non-employees is recognized based on the estimated fair value of the equity instrument. The fair value of the non-employee awards is subject to remeasurement at each reporting period until services required under the arrangement are completed, which is the vesting date.

Use of the Black-Scholes-Merton option-pricing model requires the input of highly subjective assumptions, including (1) the fair value of the underlying common stock, (2) the expected term of the option, (3) the expected volatility of the price of our common stock, (4) risk-free interest rates and (5) the expected dividend yield of our common stock. The assumptions used in the option-pricing model represent our best estimates. These estimates involve inherent uncertainties and the application of our judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

We have granted options at an exercise price per share not less than what the board of directors had determined was the fair market value per share of our underlying common stock on each date of grant. Up until the time of our initial public offering, our common stock valuations were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Because our common stock was not publicly traded, the board of directors exercised significant judgment in determining the fair value of our common stock. Changes in judgments could have a material impact on our results of operations and financial position. Now that our common stock is publicly traded, estimates regarding the fair value of our common stock will not be necessary.

The board of directors is comprised of a majority of non-employee directors that we believe had the relevant experience and expertise to determine a fair value of our common stock on each respective grant date. In the absence of a public trading market for our common stock at that time, the board of directors, with input from management, considered numerous objective and subjective factors to determine the common stock's fair value as of the date of each option grant, including our operating and financial performance, financial condition, current business conditions and projections, the market performance of companies in the industry in which we compete, the hiring of key personnel and the availability of tax equity and debt financing.

In addition to assumptions used in the Black-Scholes-Merton option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation expense for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures since the adoption of our equity award plan. We routinely evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and expectations of future option exercise behavior. Changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements.

We will continue to use judgment in evaluating the expected term, expected volatility and forfeiture rate related to our stock-based compensation expense on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to the estimates of our expected volatility, expected terms and forfeiture rates, which could materially impact our future stock-based compensation expense as it relates to the future grants of our stock-based awards.

Provision for Income Taxes

We account for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax reporting purposes, net operating loss carryforwards and other tax credits measured by applying currently enacted tax laws. A valuation allowance is provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

In the fourth quarter of 2015, we prospectively adopted Accounting Standards Update, or ASU, 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This update requires that deferred tax assets and liabilities, including any related valuation allowance, be classified as non-current in a classified statement of financial position and eliminates the requirement that an entity separate deferred tax liabilities and assets into current and non-current amounts. The adoption of this update resulted in a reclassification of our $7.3 million net current deferred tax asset to the net non-current deferred tax liability in our consolidated balance sheet as of December 31, 2015. No prior periods were retrospectively adjusted.

We recognize sales of solar energy systems to the investment funds for income tax purposes. As the investment funds are consolidated by us, the gain on the sale of the solar energy systems is not recognized in the consolidated financial statements. However, this gain is recognized for tax reporting purposes. Since these transactions are intercompany sales for GAAP purposes, any tax expense incurred related to these intercompany sales is deferred and recorded as a prepaid tax asset and amortized over the estimated useful life of the underlying solar energy systems, which has been estimated to be 30 years.

We determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Our policy is to include interest and penalties related to unrecognized tax benefits, if any, within the provision for taxes in the consolidated statements of operations.

Non-Controlling Interests and Redeemable Non-Controlling Interests

Our non-controlling interests and redeemable non-controlling interests represent fund investors' interests in the net assets of certain investment funds, which we consolidate, that we have entered into in order to finance the costs of solar energy systems under long-term customer contracts. We have determined that the provisions in the contractual arrangements of the investment funds represent substantive profit-sharing arrangements, which gives rise to the non-controlling interests and redeemable non-controlling interests. We have further determined that the appropriate methodology for attributing income and loss to the non-controlling interests and redeemable non-controlling interests each period is a balance sheet approach using the HLBV method. Under the HLBV method, the amounts of income and loss attributed to the non-controlling interests and redeemable non-controlling interests in the consolidated statements of operations reflect changes in the amounts the fund investors would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreements of these funds, assuming the net assets of these respective investment funds were liquidated at recorded amounts. The fund investors' interest in the results of operations of these investment funds is determined as the difference in the non-controlling interests and redeemable non-controlling interest's claim under the HLBV method at the start and end of each reporting period, after taking into account any capital transactions between the fund and the fund investors.

Attributing income and loss to the non-controlling interests and redeemable non-controlling interests under the HLBV method requires the use of significant assumptions and estimates to calculate the amounts that fund investors would receive upon a hypothetical liquidation. Changes in these assumptions and estimates can have a significant impact on the amount that fund investors would receive upon a hypothetical liquidation. The use of the HLBV methodology to allocate income to the non-controlling and redeemable non-controlling interest holders may create volatility in our consolidated statements of operations as the application of HLBV can drive changes in net income available and loss

attributable to non-controlling interests and redeemable non-controlling interests from quarter to quarter.

We classify certain non-controlling interests with redemption features that are not solely within our control outside of permanent equity on our consolidated balance sheets. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date as determined by the HLBV method or their estimated redemption value in each reporting period.

Estimating the redemption value of the redeemable non-controlling interests requires the use of significant assumptions and estimates. Changes in these assumptions and estimates can have a significant impact on the calculation of the redemption value.

Quarterly Results of Operations

The following table presents our unaudited consolidated statement of operations for each of the eight quarters in the 24 month period ended December 31, 2015. Our consolidated statement of operations for each of these quarters have been prepared on a basis consistent with our audited annual consolidated financial statements included elsewhere in this report and, in the opinion of management, include all adjustments necessary for the fair presentation of our consolidated results of operations for these quarters.

You should read this information together with our consolidated financial statements and the related Notes included elsewhere in this report. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period.

	Three Months Ended							
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(In thousands except per share data)							
Revenue:								
Operating leases and incentives	$15,488	$21,781	$15,301	$8,580	$5,890	$7,131	$5,804	$2,863
Solar energy system and product sales	540	693	834	965	970	1,202	754	644
Total revenue	16,028	22,474	16,135	9,545	6,860	8,333	6,558	3,507
Operating expenses:								
Cost of revenue—operating leases and incentives	36,414	37,624	33,295	23,880	20,823	19,515	16,459	11,187
Cost of revenue—solar energy system and product sales	378	470	476	438	487	627	485	398
Sales and marketing	10,897	12,051	18,697	6,433	5,640	5,220	5,790	5,219
Research and development	1,352	1,047	920	582	489	431	500	472
General and administrative	20,716	21,954	31,364	18,630	15,623	37,170	13,752	12,354
Amortization of intangible assets	1,977	3,711	3,721	3,763	3,756	3,727	3,691	3,737
Impairment of intangible assets	—	—	—	4,506	—	—	—	—
Total operating expenses	71,734	76,857	88,473	58,232	46,818	66,690	40,677	33,367
Loss from operations	(55,706)	(54,383)	(72,338)	(48,687)	(39,958)	(58,357)	(34,119)	(29,860)
Interest expense	4,360	3,351	2,730	2,127	1,988	3,261	2,673	1,401
Other (income) expense	(553)	26	60	313	(90)	297	277	888
Loss before income taxes	(59,513)	(57,760)	(75,128)	(51,127)	(41,856)	(61,915)	(37,069)	(32,149)
Income tax (benefit) expense	(6,240)	(7,448)	14,577	8,848	(3,784)	(10,222)	2,542	4,394
Net loss	(53,273)	(50,312)	(89,705)	(59,975)	(38,072)	(51,693)	(39,611)	(36,543)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(40,083)	(50,780)	(103,358)	(72,124)	(31,933)	(16,415)	(45,104)	(43,584)
Net (loss attributable) income available to common stockholders	$(13,190)	$468	$13,653	$12,149	$(6,139)	$(35,278)	$5,493	$7,041

Net (loss attributable) income available per share to common stockholders:								
Basic	$(0.12)	$0.00	$0.13	$0.12	$(0.06)	$(0.45)	$0.07	$0.09
Diluted	$(0.12)	$0.00	$0.12	$0.11	$(0.06)	$(0.45)	$0.07	$0.09
Weighted-average shares used in computing net (loss attributable) income available per share to common stockholders:								
Basic	106,551	106,492	105,988	105,303	105,079	78,428	75,000	75,000
Diluted	106,551	110,223	109,794	109,051	105,079	78,428	76,267	76,064

Seasonality

We experience seasonal fluctuations in our operations. For example, the amount of revenue we recognize in a given period from power purchase agreements is dependent in part on the amount of energy generated by solar energy systems under such contracts. As a result, operating leases and incentives revenue is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather. For example, we have limited ability to install solar energy systems during the winter months in the Northeastern United States. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our growth rates and thus may not be readily apparent from our historical operating results and may be difficult to predict. As such, our historical operating results may not be indicative of future performance.

Liquidity and Capital Resources

As of December 31, 2015, we had cash and cash equivalents of $92.2 million, which consisted principally of cash and time deposits with high-credit-quality financial institutions.

Besides the proceeds from our initial public offering detailed below, we have also financed our solar energy system-related operations from investment fund arrangements that we have formed with fund investors, from borrowings and from revenue from operations. Our principal uses of cash are funding our operations, including the costs of acquisition and installation of solar energy systems, satisfaction of our obligations under our debt instruments and other working capital requirements. Our business model requires substantial outside financing arrangements to grow the business and facilitate the deployment of additional solar energy systems. While there can be no assurances, we anticipate raising additional required capital from new and existing fund investors, additional borrowings and other potential financing vehicles.

We may seek to raise financing through the sale of equity, equity-linked securities, additional borrowings or other financing vehicles. Additional equity or equity-linked financing may be dilutive to our stockholders. If we raise funding through additional borrowings, such borrowings would have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. We believe our cash and cash equivalents, including our investment fund commitments, projected investment fund contributions and our current debt facilities as further described below, in addition to financing that we may obtain from other sources, including our financial sponsors, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, if we are unable to secure additional financing when needed, or upon desirable terms, we may be unable to finance installation of our customers' systems in a manner consistent with our past performance, our cost of capital could increase, or we may be required to significantly reduce the scope of our operations, any of which would have a material adverse effect on our business, financial condition, results of operations and prospects. While we believe additional financing is available and will continue to be available to support our current level of operations, we believe we have the ability and intent to reduce operations to the level of available financial resources at least through 2016.

Sources of Funds

Sale of Equity Securities

On October 6, 2014, we closed our initial public offering in which we sold 20.6 million shares of our common stock at a price of $16.00 per share, resulting in net proceeds of $300.6 million after deducting underwriting discounts and commissions and $8.8 million in offering expenses payable by us.

In August and September 2014, we issued and sold an aggregate of 9.7 million shares of common stock to 313 Acquisition LLC and two of our directors for $10.667 per share for aggregate gross proceeds of $103.5 million. The transactions were negotiated on an arms' length basis and represented what we believed to be the most agreeable alternative at the time. For additional discussion regarding these transactions, refer to Note 12—Redeemable Non-Controlling Interests, Equity and Preferred Stock.

Investment Fund Commitments

As of February 29, 2016, we have raised 16 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion, which will enable us to install solar energy systems of total fair market value approximating $2.6 billion. The undrawn committed capital for these funds as of February 29, 2016 is approximately $148 million, which includes approximately $73 million in payments that will be received from fund investors upon interconnection to the respective power grid of solar energy systems that

have already been allocated to investment funds. As of February 29, 2016, we had tax equity commitments to fund approximately 55 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $241 million.

Debt Instruments

Aggregation Credit Facility. In September 2014, we entered into the Aggregation Facility which was subsequently amended in February 2015 and November 2015, pursuant to which we may borrow up to an aggregate principal amount of $375.0 million and, for which Bank of America, N.A. is acting as administrative agent. Upon the satisfaction of certain conditions and the approval of the lenders, we may increase the aggregate amount of principal borrowings to $550.0 million. As of December 31, 2015, we had incurred an aggregate of $269.1 million in term loan borrowings under this agreement and we had a remaining borrowing capacity of $105.9 million under this facility.

The February 2015 amendment to the Aggregation Facility increased the funding commitment by $25.0 million pursuant to which we may borrow up to an aggregate of $375.0 million. In addition, the right to which we may request additional borrowing capacity, upon the satisfaction of certain conditions and the approval of the lenders, was reduced to $175.0 million, such that the total potential capacity under the facility remains at $550.0 million. The other terms of the Aggregation Facility remained unchanged.

The November amendments primarily included (i) changing the formula for determining the amount that we may borrow subject to the satisfaction of certain conditions, without changing the $375.0 million loan commitment, enabling us to draw additional loan proceeds from the existing conditions satisfied, (ii) converting the facility from a term facility into a revolving facility and (iii) requiring us to enter into an interest rate hedging agreement before September 13, 2016.

Prepayments are permitted under the Aggregation Facility and the principal and accrued interest on any outstanding loans mature on March 12, 2018. Under the Aggregation Facility, interest on borrowings accrues at a floating rate equal to (1) a margin that varies between 3.25% during the period during which we may incur borrowings and 3.50% after such period plus either of (2)(a) the London Interbank Offer Rate, or LIBOR, or (b) the greatest of (i) the Federal Funds Rate plus 0.5%, (ii) the administrative agent's prime rate and (iii) LIBOR plus 1%. As of December 31, 2015, the borrowings under the Aggregation Facility accrued interest at 3.8%.

The Aggregation Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Aggregation Facility provides that the borrower may not incur any indebtedness other than that related to the Aggregation Facility or in respect of permitted swap agreements, and that the guarantors may not incur any indebtedness other than that related to the Aggregation Facility or as permitted under existing investment fund transaction documents. These restrictions do not impact our ability to enter into investment funds, including those that are similar to those entered into previously. As of December 31, 2015, we were in compliance with such covenants. As of December 31, 2015, we had not entered into any interest rate hedges as required by the latest debt modification.

Working Capital Credit Facility. In March 2015, we entered into the Working Capital Facility pursuant to which we may borrow up to an aggregate principal amount of $131.0 million from certain financial institutions for which Goldman Sachs Lending Partners LLC is acting as administrative agent and collateral agent. In May 2015, certain conditions were satisfied and the aggregate amount of available revolver borrowings was increased to $150.0 million. Loans under the Working Capital Facility will be used to pay for the costs incurred in connection with the design and construction of solar energy systems, and letters of credit may be issued under the Working Capital Facility for working capital and general corporate purposes. The Working Capital Facility matures in March 2020. As of December 31, 2015, we had incurred $146.8 million in borrowings under this credit facility and $3.2 million in a letter of credit related to an insurance contract. As such, there was no remaining borrowing capacity available as of December 31, 2015.

Prepayments are permitted under the Working Capital Facility, and the principal and accrued interest on any outstanding loans mature in March 2020. Interest accrues on borrowings at a floating rate equal to, dependent on the type of borrowing, (1) a rate equal to the Eurodollar Rate for the interest period divided by one minus the Eurodollar Reserve Percentage, plus a margin of 3.25%; or (2) the highest of (a) the Federal Funds Rate plus 0.50%, (b) the Citibank prime rate and (c) the one-month interest period Eurodollar rate plus 1.00%, plus a margin of 2.25%. Interest is payable dependent on the type of borrowing at the end of (1) the interest period that we elect as a term and not to exceed three months, (2) quarterly or (3) at maturity of the Working Capital Facility. As of December 31, 2015, the borrowings under the Working Capital Facility accrued interest at 3.5%.

The Working Capital Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, our ability to incur indebtedness, incur liens, make investments, make fundamental changes to our business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Working Capital Facility provides that we may not incur any indebtedness other than that related to the Working Capital Facility or in respect of permitted swap agreements. These restrictions do not impact our ability to enter into investment funds, including those that are similar to those entered into previously. We are also required to maintain $25.0 million in cash and cash equivalents and certain investments as of the last day of each quarter. As of December 31, 2015, we were in compliance with such covenants.

Revenue from Operations

In the year ended December 31, 2015, we generated $64.2 million in revenue from operations, which approximates cash inflow. The cash from our revenue partially offsets the cash used in operations for the period.

Uses of Funds

Our principal uses of cash are funding our operations, including the costs of acquisition and installation of solar energy systems, satisfaction of our obligations under our debt instruments and other working capital requirements, including growing our corporate and sales staff to support the growth of the business.

Over the past two years, our operating expenses have increased from year to year due to the significant growth of our business. We expect our capital expenditures to continue to increase as we continue to grow our business.

We expect our operating cash requirements to increase in the future as we increase sales and marketing activities to expand into new markets and increase sales coverage in markets in which we currently operate. In addition, the agreements governing each of our investment funds include options that, when exercised, either require us to purchase, or allow us to elect to purchase, our fund investor's interest in the investment fund. No options have been exercised or become exercisable to date, however, such options are expected to become exercisable in the future and the exercise of one or more options could require us to expend significant funds. Regardless of whether these options are exercised, we will need to raise financing to support our operations, and such financing may not be available to us on acceptable terms, or at all. If we are unable to raise financing when needed, our operations and ability to execute our business strategy could be adversely affected. We may seek to raise financing through the sale of equity, equity-linked securities or the incurrence of indebtedness. Additional equity or equity-linked financing may be dilutive to our stockholders. If we raise funding through the incurrence of indebtedness, such indebtedness would have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations.

Historical Cash Flows

The primary drivers of our uses and sources of cash are described in the sections above. The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		
Consolidated cash flow data:	2015	2014	2013
	(In thousands)		
Net cash used in operating activities	$(189,244)	$(135,918)	$(20,873)
Net cash used in investing activities	(556,446)	(400,763)	(127,522)
Net cash provided by financing activities	576,254	792,292	142,783
Net (decrease) increase in cash and cash equivalents	(169,436)	255,611	(5,612)

Operating Activities

In 2015, we had a net cash outflow from operations of $189.2 million. This outflow was primarily due to a $253.3 million net loss and a $165.6 million increase in prepaid tax assets. The outflow was partially offset by noncash adjustments of $107.5 million for deferred income taxes, $25.6 million for stock-based compensation, $24.9 million for depreciation and amortization and $17.7 million for impairment and amortization of intangible assets. The outflow was further offset by increases in operating liabilities of $43.5 million in deferred revenue and $12.9 million in accrued and other current liabilities.

Investing Activities

In 2015, we used $556.4 million in investing activities primarily to purchase $540.4 million associated with the design, acquisition and installation of solar energy systems. In addition, our restricted cash increased by $8.5 million and we paid $6.3 million for property and equipment and $1.2 million to develop internal-use software.

Financing Activities

In 2015, we generated $576.3 million from financing activities, of which $310.9 million was received in proceeds from long-term debt, $300.0 million was received in proceeds from fund investors, including a lease pass-through financing obligation, and $1.7 million was recognized as the excess tax benefit from stock option exercises. These proceeds were partially offset by distributions to non-controlling interests and redeemable non-controlling interests of $25.5 million and payments for debt issuance and capital lease obligations of $10.8 million.

Contractual Obligations

Our contractual commitments and obligations were as follows as of December 31, 2015:

	Payments Due by Period[1]				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Long-term debt	$—	$269,100	$146,750	$—	$415,850
Distributions payable to non-controlling interests and redeemable non-controlling interests[2]	11,347	—	—	—	11,347
Capital lease obligations and interest	6,405	9,815	1,044	—	17,264
Non-cancellable lease obligations	14,223	23,129	18,969	81,216	137,537
Total	$31,975	$302,044	$166,763	$81,216	$581,998

(1) Does not include amounts related to redeemable put options held by fund investors. The redemption price for the fund investors' interest in the respective fund is equal to the sum of: (a) any unpaid, accrued priority return, and (i) the greater of: (x) a fixed price and (b) the fair market value of such interest at the date the option is exercised. Due to uncertainties associated with estimating the timing and amount of the redemption price, we cannot determine the potential future payments that we could have to make under these redemption options. For additional information regarding the redeemable put options, see Note 12—Redeemable Non-Controlling Interests, Equity and Preferred Stock to our consolidated financial statements. As of December 31, 2015, all fund investors have contributed an aggregate of $773.0 million into the funds. For additional information regarding our investment funds, see Note 11—Investment Funds to our consolidated financial statements.

(2) Includes a $5.2 million accrued distribution reimbursement to a fund investor in order to true up the investor's expected rate of return due to a delay in systems being interconnected to the power grid. However, does not include any other potential contractual obligations that may arise as a result of the contractual guarantees we have made with certain investors in our investment funds. The amounts of any potential payments we may be required to make depend on the amount and timing of future distributions to the relevant fund investors and the investment tax credits that accrue to such investors from the funds' activities. Due to uncertainties associated with estimating the timing and amounts of distributions and likelihood of an event that may trigger repayment of any forfeiture or recapture of investment tax credits to such investors, we cannot determine the potential maximum future payments that we could have to make under these guarantees. As a result of these guarantees, as of December 31, 2015, we were required to hold a minimum balance of $10.0 million in the aggregate, which is classified as restricted cash on our consolidated balance sheet. For additional information, see Note 11—Investment Funds to our consolidated financial statements.

Off-Balance Sheet Arrangements

We include in our consolidated financial statements all assets and liabilities and results of operations of investment fund arrangements that we have entered into. We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, Leases (Topic 842). The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This

update primarily changes the recognition by lessees of lease assets and liabilities for leases currently classified as operating leases. Lessor accounting remains largely unchanged. This update is effective in fiscal years beginning after December 15, 2018 for public business entities and early adoption is permitted. The amendments should be applied using a modified retrospective approach. We have operating leases that will be affected by this update and are evaluating the impact on our consolidated financial statements and disclosures. We expect to apply the update upon its effectiveness in the first quarter of 2019.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This update is effective in fiscal years beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We are currently evaluating the impact this new guidance will have on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments. Under current GAAP, an acquirer is required to retrospectively adjust any provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. To simplify the accounting for adjustments to provisional amounts, the update eliminates the requirement to retrospectively account for those adjustments. This update is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. We do not currently have acquisitions which would be affected by this update.

In August 2015, the FASB issued ASU 2015-15, Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which addresses an omission in ASU 2015-03. In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs be presented as a direct reduction from the carrying amount of that debt liability similar to debt discounts. Existing recognition and measurement guidance is not impacted. However, ASU 2015-15 acknowledges that ASU 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Per ASU 2015-15, an entity may defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-15 is effective immediately. ASU 2015-03 is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. We have debt issuance costs related to line-of-credit arrangements and have adopted ASU 2015-15, which resulted in no change of presentation. If we enter into other debt arrangements that fall under ASU 2015-03, we will account for any related debt issuance costs per the update upon its effectiveness in the first quarter of 2016.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which defers the effective date of ASU 2014-09. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2015-14 defers the effective date of ASU 2014-09 for one year, and the standard is now effective for us on January 1, 2018. The deferral allows for early adoption of the standard, which for us would be on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating which transition method to use for adopting ASU 2014-09 when required and do not expect the update to have a significant impact on our consolidated financial statements and related disclosures based on our current business model.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customers Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance regarding the accounting for fees paid by a customer in cloud computing arrangements. If a cloud computing arrangement includes a software license, the payment of fees should be accounted for in the same manner as the acquisition of other software licenses. If there is no software license, the fees should be accounted for as a service contract. The update is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. We do not expect that this update will have a significant impact on our consolidated financial statements and disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This update makes some targeted changes to current consolidation guidance. These changes impact both the voting and the variable interest consolidation models. In particular, the update will change how companies determine whether limited partnerships or similar entities are VIEs. The update is effective in fiscal years, including interim

periods, beginning after December 15, 2015, and early adoption is permitted. We currently consolidate all VIEs in which we have an equity interest and do not expect that ASU 2015-02 will have a significant impact on our consolidated financial statements and related disclosures.

Emerging Growth Company Status

Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents and our indebtedness.

As of December 31, 2015, we had cash and cash equivalents of $92.2 million. Our cash equivalents are money market accounts and time deposits with maturities of three months or less at the time of purchase. Our primary exposure to market risk on these funds is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our consolidated financial statements.

As of December 31, 2015, we had incurred an aggregate of $415.9 million in borrowings under our debt facilities, which currently accrue interest at a weighted-average rate of approximately 3.6%. If our debt facilities had been fully drawn at December 31, 2014 and remained outstanding for all of 2015, the effect of a hypothetical 10% change in our floating interest rate on these borrowings would increase or decrease interest expense by approximately $1.9 million.

All of our operations are in the United States and all purchases of our solar energy system components are denominated in U.S. dollars. However, our suppliers often incur a significant amount of their costs by purchasing raw materials and generating operating expenses in foreign currencies. If the value of the U.S. dollar depreciates significantly or for a prolonged period of time against these currencies (particularly the Chinese Renminbi), our suppliers may raise the prices they charge us, which could have a negative impact on our financial results.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Vivint Solar, Inc.

We have audited the accompanying consolidated balance sheets of Vivint Solar, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, redeemable non-controlling interests and equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vivint Solar, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Salt Lake City, Utah

March 14, 2016

69

Vivint Solar, Inc.

Consolidated Balance Sheets

(In thousands, except per share data and footnote 1)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$92,213	$261,649
Accounts receivable, net	3,636	1,837
Inventories	631	774
Prepaid expenses and other current assets	17,078	16,806
Total current assets	113,558	281,066
Restricted cash and cash equivalents	15,035	6,516
Solar energy systems, net	1,102,157	588,167
Property and equipment, net	48,168	13,024
Intangible assets, net	2,031	18,487
Goodwill	36,601	36,601
Prepaid tax asset, net	277,496	111,910
Other non-current assets, net	14,024	8,553
TOTAL ASSETS[1]	$1,609,070	$1,064,324
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY		
Current liabilities:		
Accounts payable	$49,986	$51,354
Accounts payable—related party	1,905	2,132
Distributions payable to non-controlling interests and redeemable non-controlling interests	11,347	6,780
Accrued compensation	13,758	16,794
Current portion of deferred revenue	4,968	314
Current portion of capital lease obligation	5,489	3,502
Accrued and other current liabilities	29,017	14,016
Total current liabilities	116,470	94,892
Capital lease obligation, net of current portion	10,055	6,176
Long-term debt	415,850	105,000
Deferred tax liability, net	216,033	112,227
Deferred revenue, net of current portion	43,304	4,466
Other non-current liabilities	28,565	—
Total liabilities[1]	830,277	322,761
Commitments and contingencies (Note 16)		
Redeemable non-controlling interests	169,541	128,427
Stockholders' equity:		
Common stock, $0.01 par value—1,000,000 authorized, 106,576 shares issued and	1,066	1,053

outstanding as of December 31, 2015; 1,000,000 authorized, 105,303 shares issued and outstanding as of December 31, 2014		
Additional paid-in capital	530,646	502,785
Accumulated deficit	(12,769)	(25,849)
Total stockholders' equity	518,943	477,989
Non-controlling interests	90,309	135,147
Total equity	609,252	613,136
TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY	$1,609,070	$1,064,324

(1) The Company’s consolidated assets as of December 31, 2015 and 2014 include $1,005.8 million and $540.1 million consisting of assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. These assets include solar energy systems, net, of $990.6 million and $525.9 million as of December 31, 2015 and 2014; cash and cash equivalents of $12.0 million and $12.6 million as of December 31, 2015 and 2014; accounts receivable, net, of $3.1 million and $1.5 million as of December 31, 2015 and 2014; and prepaid expenses and other current assets of $0.1 million and zero as of December 31, 2015 and 2014. The Company’s consolidated liabilities as of December 31, 2015 and 2014 included $66.4 million and $11.4 million of liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to non-controlling interests and redeemable non-controlling interests of $11.3 million and $6.8 million as of December 31, 2015 and 2014; deferred revenue of $47.9 million and $4.6 million as of December 31, 2015 and 2014; accrued and other current liabilities of $3.9 million and zero as of December 31, 2015 and 2014; and other non-current liabilities of $3.3 million and zero as of December 31, 2015 and 2014. For further information see Note 11—Investment Funds.

See accompanying notes to consolidated financial statements.

Vivint Solar, Inc.

Consolidated Statements of Operations

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenue:			
Operating leases and incentives	$61,150	$21,688	$5,864
Solar energy system and product sales	3,032	3,570	306
Total revenue	64,182	25,258	6,170
Operating expenses:			
Cost of revenue—operating leases and incentives	131,213	67,984	19,004
Cost of revenue—solar energy system and product sales	1,762	1,997	123
Sales and marketing	48,078	21,869	7,348
Research and development	3,901	1,892	—
General and administrative	92,664	78,899	16,438
Amortization of intangible assets	13,172	14,911	14,595
Impairment of intangible assets	4,506	—	—
Total operating expenses	295,296	187,552	57,508
Loss from operations	(231,114)	(162,294)	(51,338)
Interest expense	12,568	9,323	3,144
Other (income) expense	(154)	1,372	1,865
Loss before income taxes	(243,528)	(172,989)	(56,347)
Income tax expense (benefit)	9,737	(7,070)	123
Net loss	(253,265)	(165,919)	(56,470)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(266,345)	(137,036)	(62,108)
Net income available (loss attributable) to common stockholders	$13,080	$(28,883)	$5,638
Net income available (loss attributable) per share to common stockholders:			
Basic	$0.12	$(0.35)	$0.08
Diluted	$0.12	$(0.35)	$0.07
Weighted-average shares used in computing net income available (loss attributable) per share to common stockholders:			
Basic	106,088	83,446	75,000
Diluted	109,858	83,446	75,223

See accompanying notes to consolidated financial statements.

71

Vivint Solar, Inc.

Consolidated Statements of Redeemable Non-Controlling Interests and Equity

(In thousands)

	Redeemable Non-Controlling Interests	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders Equity	Non-Controlling Interests	Total Equity
Balance — January 1, 2013	$ 17,741	$ 75,000	$ 750	$ 73,177	$ (2,604)	$ 71,323	$ —	$ 71,323
Stock-based compensation expense	—	—	—	294	—	294	—	294
Non-cash contributions for services	—	—	—	160	—	160	—	160
Capital contribution from Parent	—	—	—	1,418	—	1,418	—	1,418
Contributions from non-controlling interests and redeemable non-controlling interests	63,154	—	—	—	—	—	60,000	60,000
Distributions to non-controlling interests and redeemable non-controlling interests	(3,064)	—	—	—	—	—	(670)	(670)
Net (loss) income	(4,566)	—	—	—	5,638	5,638	(57,542)	(51,904)
Balance — December 31, 2013	73,265	75,000	750	75,049	3,034	78,833	1,788	80,621
Stock-based compensation expense	—	—	—	23,687	—	23,687	—	23,687
Non-cash contributions for services	—	—	—	200	—	200	—	200
Issuance of common stock	—	30,303	303	412,609	—	412,912	—	412,912
Costs related to issuance of common	—	—	—	(8,760)	—	(8,760)	—	(8,760)

stock								
Contributions from non-controlling interests and redeemable non-controlling interests	63,735	—	—	—	—	—	275,777	275,777
Deemed dividend	—	—	—	43,430	—	43,430	—	43,430
Return of capital adjustment	—	—	—	(43,430)	—	(43,430)	—	(43,430)
Distributions to non-controlling interests and redeemable non-controlling interests	(5,154)	—	—	—	—	—	(8,801)	(8,801)
Net loss	(3,419)	—	—	—	(28,883)	(28,883)	(133,617)	(162,500)
Balance — December 31, 2014	128,427	105,303	1,053	502,785	(25,849)	477,989	135,147	613,136
Stock-based compensation expense	—	—	—	25,604	—	25,604	—	25,604
Excess tax effects from stock-based compensation	—	—	—	1,713	—	1,713	—	1,713
Issuance of common stock, net	—	1,273	13	544	—	557	—	557
Contributions from non-controlling interests and redeemable non-controlling interests	113,896	—	—	—	—	—	178,833	178,833
Distributions to non-controlling interests and redeemable non-controlling interests	(6,566)	—	—	—	—	—	(23,542)	(23,542)
Net (loss) income	(66,216)	—	—	—	13,080	13,080	(200,129)	(187,049)
Balance — December 31, 2015	$169,541	106,576	$1,066	$530,646	$(12,769)	$518,943	$90,309	$609,252

See accompanying notes to consolidated financial statements

72

Vivint Solar, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(253,265)	$(165,919)	$(56,470)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	24,924	8,523	1,984
Amortization of intangible assets	13,172	15,042	14,595
Impairment of intangible assets	4,506	—	—
Deferred income taxes	107,466	74,848	30,927
Stock-based compensation	25,604	23,687	294
Loss on removal of solar energy systems and property and equipment	1,024	—	—
Non-cash interest and other expense	3,724	6,512	2,930
Reduction in lease pass-through financing obligation	(231)	—	—
Non-cash contributions for services	—	200	160
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(1,799)	(1,018)	(512)
Inventories	143	(195)	—
Prepaid expenses and other current assets	(576)	(10,486)	(3,605)
Prepaid tax asset, net	(165,586)	(81,172)	(30,738)
Other non-current assets, net	(5,268)	(8,451)	(741)
Accounts payable	1,636	1,905	1,425
Accounts payable—related party	(227)	(935)	2,592
Accrued compensation	(892)	(1,073)	10,367
Deferred revenue	43,492	3,387	1,340
Accrued and other current liabilities	12,909	(773)	4,579
Net cash used in operating activities	(189,244)	(135,918)	(20,873)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for the cost of solar energy systems	(540,399)	(383,522)	(134,138)
Payments for property and equipment	(6,307)	(3,505)	—
Change in restricted cash and cash equivalents	(8,519)	(1,516)	(3,500)
Purchase of intangible assets	(1,221)	(370)	—
Payment in connection with business acquisition, net of cash acquired	—	(12,040)	—
Proceeds from U.S. Treasury grants	—	190	10,116
Net cash used in investing activities	(556,446)	(400,763)	(127,522)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from investment by non-controlling interests and redeemable non-controlling interests	292,729	339,512	123,154
Distributions paid to non-controlling interests and redeemable non-controlling interests	(25,541)	(8,751)	(2,284)
Proceeds from long-term debt	310,850	105,000	—
Proceeds from short-term debt	—	75,500	—

Payments on short-term debt	—	(75,500)	—
Payments for debt issuance costs	(5,422)	—	—
Proceeds from lease pass-through financing obligation	7,228	—	—
Proceeds from revolving lines of credit—related party	—	154,500	83,482
Payments on revolving lines of credit—related party	—	(200,192)	(60,000)
Payments on revolving lines of credit	—	—	(2,000)
Principal payments on capital lease obligations	(5,363)	(2,623)	(987)
Proceeds from issuance of common stock	649	412,912	—
Payments for deferred offering costs	(589)	(8,066)	—
Excess tax effects from stock-based compensation	1,713	—	—
Capital contribution from Parent	—	—	1,418
Net cash provided by financing activities	576,254	792,292	142,783
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(169,436)	255,611	(5,612)
CASH AND CASH EQUIVALENTS—Beginning of period	261,649	6,038	11,650
CASH AND CASH EQUIVALENTS—End of period	$92,213	$261,649	$6,038
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$8,469	$4,473	$206
Cash paid for income taxes	$67,135	$4,350	$4
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Property acquired under build-to-suit agreements	$25,560	$—	$—
Vehicles acquired under capital leases	$11,363	$8,541	$4,749
Accrued distributions to non-controlling interests and redeemable non-controlling interests	$4,567	$5,204	$1,450
Receivable for tax credit recorded as a reduction to solar energy system costs	$1,678	$4,132	$2,122
Costs of solar energy systems included in changes in accounts payable, accrued compensation and other accrued liabilities	$(6,589)	$25,990	$19,946

See accompanying notes to consolidated financial statements.

Vivint Solar, Inc.

Notes to Consolidated Financial Statements

1.Organization

Vivint Solar, Inc. (the "Company" and formerly known as V Solar Holdings, Inc.) was incorporated as a Delaware corporation on August 12, 2011. Vivint Solar, Inc. and its subsidiaries are collectively referred to as the "Company." The Company commenced operations in May 2011. In November 2012 (the "Acquisition Date"), investment funds affiliated with The Blackstone Group L.P. (the "Sponsor") and certain co-investors (collectively, the "Investors"), through 313 Acquisition LLC ("313" or "Parent"), acquired 100% of the equity interests of APX Group, Inc. ("Vivint") and the Company (the "Acquisition"). The Acquisition was accomplished through certain mergers and related reorganization transactions pursuant to which the Company became a direct wholly owned subsidiary of 313, an entity owned by the Investors. In October 2014, the Company closed its initial public offering with 313 remaining the majority shareholder.

Merger Agreement with SunEdison

On July 20, 2015, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with SunEdison, Inc., a Delaware corporation ("SunEdison") and SEV Merger Sub, Inc., a wholly-owned subsidiary of SunEdison. The Merger Agreement was subsequently amended on December 9, 2015 to update the terms of the merger. The Company terminated the Merger Agreement on March 7, 2016.

On March 8, 2016, the Company filed suit in the Court of Chancery State of Delaware against SunEdison alleging that SunEdison willfully breached its obligations under the Merger Agreement and breached its implied covenant of good faith and fair dealing. The Company is seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just.

Business

The Company primarily offers solar energy to residential customers through long-term customer contracts, such as power purchase agreements and solar energy system leases. The Company enters into these long-term customer contracts primarily through a sales organization that uses a direct-to-home sales model. The long-term customer contracts are typically for 20 years and require the customer to make monthly payments to the Company. In 2015, the Company also began offering customers the option to purchase solar energy systems. In May 2015, the Company began offering solar energy systems to commercial and industrial ("C&I") customers through long-term customer contracts.

The Company has formed various investment funds and entered into long-term debt facilities to monetize the recurring customer payments under its long-term customer contracts and the investment tax credits, accelerated tax depreciation and other incentives associated with residential solar energy systems. The Company uses the cash received from the investment funds, long-term debt facilities and revenue generated from operations to finance a portion of the Company's variable and fixed costs associated with installing the residential solar energy systems. The obligations of the Company are in no event obligations of the investment funds.

74

Since inception, the Company has relied on Vivint and certain of its affiliates for some of its administrative, managerial, account management and operational services. The Company's use of Vivint services has steadily decreased since 2013 and now consists primarily of IT support. The Company was consolidated by Vivint as a variable interest entity prior to the Acquisition, and continues to be an affiliated entity and related party subsequent to the Acquisition. The Company has entered into various agreements and transactions with Vivint and its affiliates related to these services. See Note 15—Related Party Transactions.

2.Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying 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") and reflect the accounts and operations of the Company, its subsidiaries in which the Company has a controlling financial interest and the investment funds formed to fund the purchase of solar energy systems, which are consolidated as variable interest entities ("VIEs"). The Company uses a qualitative approach in assessing the consolidation requirement for VIEs. This approach focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. For all periods presented, the Company has determined that it is the primary beneficiary in the operational VIEs in which it has an equity interest. The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. For additional information regarding these VIEs, see Note 11—Investment Funds.

The consolidated financial statements reflect all of the costs of doing business, including the allocation of expenses incurred by Vivint on behalf of the Company. For additional information, see Note 15—Related Party Transactions. These expenses were allocated to the Company on a basis that was considered to reasonably reflect the utilization of the services provided to, or the benefit obtained by, the Company. The allocations may not, however, reflect the expense the Company would have incurred as an independent company for the periods presented, and may not be indicative of the Company's future results of operations and financial position.

With respect to liquidity, the Company believes its cash and cash equivalents, including investment fund commitments, projected investment fund contributions and its current debt facilities, in addition to financing that may be obtained from other sources, including the Company's financial sponsors, will be sufficient to meet its anticipated cash needs for at least the next 12 months. While the Company believes additional financing is available and will continue to be available to support the current level of operations, the Company believes it has the ability and intent to reduce operations to the level of available financial resources at least through the year ended December 31, 2016.

Certain prior period amounts have been reclassified to conform to current year presentation. These reclassifications did not have a significant impact on the consolidated financial statements.

Segment Information

The Company's chief operating decision maker is its Chief Executive Officer. The Chief Executive Officer reviews financial information for purposes of allocating resources and evaluating financial performance. Prior to the second quarter of 2015, the Company had one business activity that was focused primarily on providing service to customers in the residential market. During the second quarter of 2015, the Company closed its first C&I investment fund with plans to service customers in the C&I market. As of December 31, 2015, the C&I fund was not operational, i.e., no

projects had been initiated within the fund. During the year ended December 31, 2015, the Company has aligned its operations as two reporting segments: (1) Residential and (2) C&I. For additional segment information, see Note 18—Segment Information.

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, estimates that affect the Company's principles of consolidation, investment tax credits, revenue recognition, solar energy systems, net, impairment of long-lived assets, goodwill impairment analysis, the recognition and measurement of loss contingencies, stock-based compensation, provision for income taxes, and non-controlling interests and redeemable non-controlling interests. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash and cash equivalents. Cash equivalents consist principally of time deposits and money market accounts with high quality financial institutions.

Restricted Cash

The Company's guaranty agreements with certain of its fund investors require the maintenance of minimum cash balances of $10.0 million. For additional information, see Note 11—Investment Funds. The Company was also required to deposit $5.0 million into a separate interest reserve account in accordance with the terms of its loan credit facility with Bank of America, N.A. For additional information, see Note 10—Debt Obligations. These minimum cash balances are classified as restricted cash.

Accounts Receivable, Net

Accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Accounts receivable also include unbilled accounts receivable, which is comprised of the monthly power generation under power purchase agreements not yet invoiced and the monthly bill rate of legal-form leases as of the end of the reporting period. The Company estimates its allowance for doubtful accounts based upon the collectability of the receivables in light of historical trends and adverse situations that may affect customers' ability to pay. Revisions to the allowance are recorded as an adjustment to bad debt expense. After appropriate collection efforts are exhausted, specific accounts receivable deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of accounts receivable previously written-off are recorded as credits to bad debt expense. The Company had an allowance for doubtful accounts of $0.9 million and $0.6 million as of December 31, 2015 and 2014.

Inventories

Inventories include components related to photovoltaic installation devices and software products and are stated at the lower of cost, on an average cost basis, or market. Inventories also include solar energy systems held for sale, which are solar energy systems under construction that have yet to be interconnected to the power grid and that will be sold to customers. Solar energy systems held for sale are stated at the lower of cost, on a first-in-first-out basis, or market. Solar energy systems held for sale was $0.1 million as of December 31, 2015. No solar energy systems were held for sale as of December 31, 2014.

The Company evaluates its inventory reserves on a quarterly basis and writes down the value of inventories for estimated excess and obsolete inventories based on assumptions about future demand and market conditions.

Concentrations of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The associated concentration risk for cash and cash equivalents is mitigated by banking with creditworthy institutions. At certain times, amounts on deposit exceed Federal Deposit Insurance Corporation insurance limits. The Company does not require collateral or other security to support accounts receivable. The Company is not dependent on any single customer. The loss of a customer would not adversely impact the Company's operating results or financial position.

The Company purchases solar panels, inverters and other system components from a limited number of suppliers. Three suppliers accounted for approximately 50%, 30% and 20% of the solar photovoltaic module purchases for the

year ended December 31, 2015. Two of those suppliers accounted for approximately 50% and 40% of these purchases for the year ended December 31, 2014. The same two suppliers each individually accounted for over 48% of these purchases for the year ended December 31, 2013. Two suppliers accounted for approximately 55% and 40% of the Company's inverter purchases for the year ended December 31, 2015. One of those suppliers accounted for a substantial majority of the Company's inverter purchases for the years ended December 31, 2014 and 2013. If these suppliers fail to satisfy the Company's requirements on a timely basis or if the Company fails to develop, maintain and expand its relationship with these suppliers, the Company could suffer delays in being able to deliver or install its solar energy systems, experience a possible loss of revenue, or incur higher costs, any of which could adversely affect its operating results.

As of December 31, 2015, the Company's customers under long-term customer contracts are primarily located in Arizona, California, Connecticut, Hawaii, Maryland, Massachusetts, New Jersey, New Mexico, New York, Pennsylvania, South Carolina and Utah. Future operations could be affected by changes in the economic conditions in these and other geographic areas, by changes in the demand for renewable energy generated by solar panel systems or by changes or eliminations of solar energy related government incentives.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value on a recurring basis in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

- Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level II—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 III—Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The Company's financial instruments consist of Level I and Level II assets and liabilities. See Note 3—Fair Value Measurements

Investment Tax Credits

The Company applies for and receives investment tax credits under Section 48(a) of the Internal Revenue Code. The amount for the investment tax credit is equal to 30% of the value of eligible solar property. The Company receives minimal allocations of investment tax credits as the majority of such credits are allocated to the fund investor. Some of the Company's investment funds obligate it to make certain fund investors whole for losses that the investors may suffer in certain limited circumstances resulting from the disallowance or recapture of investment tax credits as a result of the Internal Revenue Service's (the "IRS") assessment of the fair value of such systems. The Company has concluded that the likelihood of a recapture event is remote and consequently has not recorded any liability in the consolidated financial statements for any potential recapture exposure.

U.S. Treasury Grants

In the first quarter of 2014 and prior, certain solar energy systems were eligible to receive U.S. Treasury grants under Section 1603 of the American Recovery and Reinvestment Act of 2009, as amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of December 2010. The Company recorded a reduction in the basis of the solar energy system in the amount of cash to be received, at the grant approval date. This accounting treatment results in decreased depreciation of such solar energy systems over their useful lives. If it becomes probable that a U.S. Treasury grant is required to be repaid, the Company would assess whether it is necessary to derecognize any grant (or portion thereof) in accordance with Accounting Standards Codification section 450.

Solar Energy Systems, Net

The Company sells energy to customers through power purchase agreements or leases solar energy systems to customers under legal-form lease agreements. The Company has determined that these contracts should be accounted for as operating leases and, accordingly, the related solar energy systems are stated at cost, less accumulated depreciation and amortization. In 2014, the Company began offering leases to customers.

Solar energy systems, net is comprised of system equipment costs and initial direct costs related to solar energy systems. System equipment costs include components such as solar panels, inverters, racking systems and other electrical equipment, as well as costs for design and installation activities once a long-term customer contract has been executed. Initial direct costs related to solar energy systems consist of sales commissions and other direct customer acquisition expenses. System equipment costs and initial direct costs are capitalized and recorded within solar energy systems, net.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

	Useful Lives
System equipment costs	30 years
Initial direct costs related to solar energy systems	Lease term (20 years)

System equipment costs are depreciated and initial direct costs are amortized once the respective systems have been installed and interconnected to the power grid. As of December 31, 2015 and 2014, the Company had recorded costs of $1,134.7 million and $598.4 million in solar energy systems, of which $882.7 million and $407.7 million related to systems that had been interconnected to the power grid, with accumulated depreciation and amortization of $32.5 million and $10.2 million.

Property and Equipment, Net

The Company's property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Vehicles leased under capital leases are depreciated over the life of the lease term, which is typically three years. The estimated useful lives of computer equipment, furniture, fixtures and purchased software are three years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. The estimated useful lives of leasehold improvements currently range from one to three years. Repairs and maintenance costs are expensed as incurred. Major renewals and improvements that extend the useful lives of existing assets are capitalized and depreciated over their estimated useful lives.

Intangible Assets

Finite-lived intangible assets, which consist of customer contracts, customer relationships, trademarks/trade names and developed technology acquired in business combinations are initially recorded at fair value and presented net of accumulated amortization. These intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company amortizes customer contracts over three years, customer relationships over five years, trademarks/trade names over 10 years and developed technology over five to eight years. See Note 7—Intangible Assets and Goodwill.

In-process research and development reflects research and development projects that have not yet been completed and are capitalized as indefinite-lived intangibles subject to amortization upon completion or impairment if the assets are subsequently impaired or abandoned. In-process research and development projects were acquired in January 2014 as part of the Solmetric acquisition. See Note 4—Solmetric Acquisition.

The Company also capitalizes costs incurred in the development of internal-use software during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life. The Company tests these assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. During the year ended December 31, 2015, the development for certain internal-use software applications was completed and the Company began to amortize the internal-use software applications over the expected useful lives of three years. For the year ended December 31, 2015, $0.2 million of amortization was recorded for internal-use software. No amortization was recorded for internal-use software prior to the year ended December 31, 2015 as the internal-use software applications were still under development.

Impairment of Long-Lived Assets

The carrying amounts of the Company's long-lived assets, including solar energy systems, property and equipment and finite-lived intangible assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated. Factors that the Company considers in deciding when to perform an impairment review include significant negative industry or economic trends, and significant changes or planned changes in the Company's use of the assets. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future

undiscounted cash flows the asset is expected to generate over its remaining life. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life.

In February 2015, the Company decided to discontinue the external sales of the SunEye and PV Designer products, the rights to which the Company acquired when it acquired Solmetric Corporation, or Solmetric, in January 2014. This discontinuance was considered an indicator of impairment, and a review regarding the recoverability of the carrying value of the related intangible assets was performed. As a result of this review, the Company recorded a total impairment charge of $4.5 million for the year ended December 31, 2015. See Note 7—Intangible Assets and Goodwill.

Goodwill and Impairment Analysis

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. As of December 31, 2015, the Company consisted of two operating segments: (1) Residential and (2) C&I. As C&I was created internally in 2015 and the Company's goodwill was recorded prior to 2015, all goodwill remains with the Residential operating segment. As such, the Company's impairment test is based on a single operating segment and reporting unit structure.

The Company performs its annual impairment test of goodwill as of October 1st of each fiscal year or whenever events or circumstances change that would indicate that goodwill might be impaired. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in the business climate, unanticipated competition, loss of key personnel, significant changes in the manner the Company uses the acquired assets or the strategy for the overall business, significant negative industry or economic trends or significant underperformance relative to historical operations or projected future results of operations.

In conducting the impairment test, the Company first assesses qualitative factors, including those stated previously, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the qualitative step is not passed, the Company performs a two-step impairment test whereby in the first step, the Company must compare the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying value of the goodwill. Any excess of the goodwill carrying value over the implied fair value is recognized as an impairment loss.

The Company determined the two-step test was not necessary based on the results of its qualitative assessments and concluded that it was more likely than not that the fair value of its reporting unit was greater than its respective carrying value as of October 1, 2015 and October 1, 2014.

Prepaid Tax Asset, Net

The Company recognizes sales of solar energy systems to the investment funds for income tax purposes. As the investment funds are consolidated by the Company, the gain on the sale of the solar energy systems has been eliminated in the consolidated financial statements. However, this gain is recognized for tax reporting purposes. Since these transactions are intercompany sales for GAAP purposes, any tax expense incurred related to these intercompany sales is deferred and amortized over the estimated useful life of the underlying solar energy systems, which has been estimated to be 30 years.

Other Non-Current Assets

Other non-current assets primarily consist of deferred financing costs, advances receivable due from sales representatives and long-term refundable rent deposits. Costs incurred in connection with obtaining debt financing are deferred and amortized utilizing the straight-line method, which approximates the effective-interest method, over the term of the related financing. The Company provides advance payments of compensation to direct-sales personnel under certain circumstances. The advance is repaid as a reduction of the direct-sales personnel's future compensation. The Company has established an allowance related to advances to direct-sales personnel who have terminated their employment agreement with the Company. These are non-interest bearing advances.

Distributions Payable to Non-Controlling Interests and Redeemable Non-Controlling Interests

As discussed in Note 11—Investment Funds, the Company and fund investors have formed various investment funds that the Company consolidates as the Company has determined that it is the primary beneficiary of these VIEs. These VIEs are required to pay cumulative cash distributions to their respective fund investors. The Company accrues amounts payable to fund investors in distributions payable to non-controlling interests and redeemable non-controlling interests in its consolidated balance sheets.

Deferred Revenue

Deferred revenue primarily includes deferred investment tax credit ("ITC") revenue and rebates and incentives. Deferred ITC revenue is related to a lease pass-through arrangement in which a portion of the rent prepayment is allocated to ITC revenue. Rebates and incentives are received from utility companies and various government agencies and are recognized as revenue over the related lease term of 20 years. See Revenue Recognition below.

Home Installation Reserve and Warranties

The Company typically warrants solar energy systems sold to customers for periods of one through twenty years against defects in design and workmanship, and for periods of one to ten years that installation will remain watertight. The manufacturers' warranties on the solar energy system components, which is typically passed through to the customers, has a typical product warranty period of 10 years and a limited performance warranty period of 25 years. The Company warrants its photovoltaic installation devices and software products for one to two years against defects in materials or installation workmanship.

The Company generally assesses a reserve for damages related to home installations and provides for the estimated cost of warranties at the time the related revenue is recognized. The Company assesses the accrued home installation reserve and warranty regularly and adjusts the amounts as necessary based on actual experience and changes in future estimates. Accrued warranty and home installation reserve is recorded as a component of accrued and other current liabilities on the consolidated balance sheets and was $0.3 million as of December 31, 2015. These accruals were not significant as of December 31, 2014.

Comprehensive Income (Loss)

As the Company had no other comprehensive income or loss, comprehensive income (loss) is the same as net income available (loss attributable) to common stockholders for all periods presented.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery or performance has occurred, (3) the sales price is fixed or determinable and (4) collectability is reasonably assured. The Company generates revenue through power purchase agreements and solar energy system leases, solar renewable energy certificates ("SRECs") sales, rebate incentives and solar energy system sales. Revenue associated with power purchase agreements and solar energy system leases, SRECs and rebate incentives are included within operating leases and incentives revenue. The Company also recognizes revenue related to the sale of photovoltaic installation devices and software products and solar energy system sales within solar energy system and product sales. In the first quarter of 2015, the Company decided to discontinue the external sales of its photovoltaic installation software products.

Operating Leases and Incentives Revenue

The Company's primary revenue-generating activity consists of entering into long-term power purchase agreements with residential customers, under which the customer agrees to purchase all of the power generated by the solar energy system for the term of the contract, which is 20 years. The agreement includes a fixed price per kilowatt hour with a fixed annual price escalation percentage. Customers have not historically been charged for installation or activation of the solar energy system. For all power purchase agreements, the Company assesses the probability of collectability on a customer-by-customer basis through a credit review process that evaluates their financial condition and ability to pay.

The Company has determined that power purchase agreements should be accounted for as operating leases after evaluating and concluding that none of the following capitalized lease classification criteria are met: no transfer of ownership or bargain purchase option exists at the end of the lease, the lease term is not greater than 75% of the useful life or the present value of minimum lease payments does not exceed 90% of the fair value at lease inception. As customer payments under a power purchase agreement are dependent on power generation, they are considered contingent rentals and are excluded from future minimum annual lease payments. Revenue from power purchase

agreements is recognized based on the actual amount of power generated at rates specified under the contracts, assuming the other revenue recognition criteria discussed above are met.

In 2014, the Company began offering solar energy systems to customers pursuant to legal-form leases. The customer agreements are structured as legal-form leases due to local regulations that can be read to prohibit the sale of electricity pursuant to the Company's standard power purchase agreement. Pursuant to the lease agreements, the customers' monthly payments are a pre-determined amount calculated based on the expected solar energy generation by the system and includes an annual fixed percentage price escalation over the period of the contracts, which is 20 years. The Company provides its legal-form lease customers a performance guarantee, under which the Company agrees to make a payment at the end of each year to the customer if the solar energy systems do not meet a guaranteed production level in the prior 12-month period.

The guaranteed production levels have varying terms. Dependent on the level of the production guarantee, the Company either (1) recognizes the monthly lease payments as revenue and records a solar energy performance guarantee liability due to the contingent nature of the lease payments, or (2) straight-lines the contracted payments over the initial term of the lease. Solar energy performance guarantee liabilities were de minimis as of December 31, 2015 and 2014.

Future minimum annual lease receipts from customers under these legal-form lease agreements are as follows (in thousands):

Years Ending December 31,	
2016	$1,668
2017	1,716
2018	1,766
2019	1,817
2020	1,870

The Company applies for and receives SRECs in certain jurisdictions for power generated by its solar energy systems. When SRECs are granted, the Company typically sells them to other companies directly, or to brokers, to assist them in meeting their own mandatory emission reduction or conservation requirements. The Company recognizes revenue related to the sale of these certificates upon delivery, assuming the other revenue recognition criteria discussed above are met. The portion of SRECs included in operating leases and incentives was $13.9 million, $2.6 million and $0.3 million for the years ended December 31, 2015, 2014 and 2013.

The Company considers upfront rebate incentives earned from its solar energy systems to be minimum lease payments and are recognized on a straight-line basis over the life of the long-term customer contracts, assuming the other revenue recognition criteria discussed above are met. The portion of rebates recognized within operating leases and incentives was $0.4 million, $0.2 million and de minimis for the years ended December 31, 2015, 2014 and 2013.

Operating leases and incentives revenue is recorded net of sales tax collected.

Lease Pass-Through Arrangement

In 2015, a lease pass-through fund arrangement became operational under which the Company contributes solar energy systems and the investor contributes cash. Contemporaneously, a subsidiary of the Company entered into a master lease arrangement to lease the solar energy systems and the associated customer lease or power purchase agreements to the fund investor. The Company’s subsidiary makes a tax election to pass-through the investment tax credits (“ITCs”) that accrue to the solar energy systems to the fund investor, who as the legal lessee of the property is allowed to claim the ITCs under Section 50(d)(5) of the Internal Revenue Code and the related regulations.

Under this arrangement, the fund investor makes a large upfront lease payment to the Company’s subsidiary and subsequently makes periodic lease payments. The Company allocates a portion of the aggregate payments received from the fund investor to the estimated fair value of the assigned ITCs. The Company’s subsidiary has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly, the Company recognizes ITC revenue as the recapture provisions lapse assuming all other revenue recognition criteria have been met. The amounts allocated to ITCs are initially recorded as deferred revenue in the consolidated balance sheet, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives in the consolidated statements of operations based on the anniversary of each solar energy system’s placed in service date over the next five years. As of December 31, 2015, no ITC revenue has been recognized.

Solar Energy System and Product Sales

Revenue from solar energy system sales is recognized upon the solar energy system passing an inspection by the responsible city department after completion of system installation and interconnection to the power grid per the completed contract method, assuming the remaining revenue recognition criteria discussed above have been met.

Revenue from the sale of photovoltaic installation devices and software products is recognized upon delivery of the product to the customer assuming the remaining revenue recognition criteria discussed above have been met.

Multiple-Element Arrangements

Subsequent to the acquisition of Solmetric in January 2014 and prior to the discontinuance of external sales of the SunEye and PV Designer products, the Company entered into multiple-element arrangements typically involving sales of (1) photovoltaic installation hardware devices containing software essential to the hardware product's functionality and (2) stand-alone software. The Company allocated revenue based on the Company's best estimate of selling price, which was determined by considering multiple factors including, but not limited to, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The consideration allocated to the delivered photovoltaic device is recognized at the time of shipment provided that the four general revenue recognition criteria discussed above have been met.

Cost of Revenue

Cost of Revenue—Operating Leases and Incentives

Cost of revenue—operating leases and incentives includes the depreciation of the cost of the solar energy systems and the amortization of capitalized initial direct costs. It also includes other costs related to the processing, account creation, design, installation, interconnection and servicing of solar energy systems that are not capitalized, such as personnel costs not directly associated to a solar energy system installation, warehouse rent and utilities, and fleet vehicle executory costs. The cost of revenue for the sales of SRECs is limited to broker fees which are paid in connection with certain SREC transactions.

Cost of Revenue—Solar Energy System and Product Sales

Cost of revenue—solar energy system and product sales consists of direct and indirect material and labor costs for solar energy systems. It also consists of materials, personnel costs, depreciation, facilities costs, other overhead costs and infrastructure expenses associated with the manufacturing of the photovoltaic installation devices and software products.

Research and Development

Research and development expense is primarily comprised of salaries and benefits associated with research and development personnel and other costs related to photovoltaic installation devices and software products and the development of other solar technologies. Research and development costs are charged to expense when incurred. The Company’s research and development expense was $3.9 million and $1.9 million for the years ended December 31, 2015 and 2014. Prior to the acquisition of Solmetric in January 2014, the Company did not incur any research and development expenses.

Advertising Costs

Advertising costs are expensed when incurred and are included in sales and marketing expenses in the consolidated statements of operations. The Company’s advertising expense was $4.5 million, $3.5 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013.

Other Income (Expense)

The Company incurred interest and penalties primarily associated with employee payroll withholding tax payments that were not paid in a timely manner of $1.4 million and $1.9 million for the years ended December 31, 2014 and 2013. For the year ended December 31, 2015, the Company received an abatement of a portion of such penalties and interest.

Income Taxes

The Company accounts for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax reporting purposes, net operating loss carryforwards, and other tax credits measured by applying currently enacted tax laws. A valuation allowance is provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

82

In the fourth quarter of 2015, the Company prospectively adopted Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This update requires that deferred tax assets and liabilities, including any related valuation allowance, be classified as non-current in a classified statement of financial position and eliminates the requirement that an entity separate deferred tax liabilities and assets into current and non-current amounts. The adoption of this update resulted in a reclassification of the Company's $7.3 million net current deferred tax asset to the net non-current deferred tax liability in the Company's consolidated balance sheet as of December 31, 2015. No prior periods were retrospectively adjusted.

The Company determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company uses a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

The Company's policy is to include interest and penalties related to unrecognized tax benefits, if any, within income tax expense (benefit) in the consolidated statements of operations.

Stock-Based Compensation Expense

Stock-based compensation expense for equity instruments issued to employees is measured based on the grant-date fair value of the awards. The fair value of each time-based employee stock option is estimated on the date of grant using the Black-Scholes-Merton stock option pricing valuation model. The fair value of each performance-based employee stock option is estimated on the date of grant using the Monte Carlo simulation model. The fair value of each restricted stock award and performance share unit award is determined as the closing price of the Company's stock on the date of grant. The Company recognizes compensation costs using the accelerated attribution method for all employee stock-based compensation awards that are expected to vest over the requisite service period of the awards, which is generally the awards' vesting period. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense for equity instruments issued to non-employees is recognized based on the estimated fair value of the equity instrument. The fair value of the non-employee awards is subject to remeasurement at each reporting period until services required under the arrangement are completed, which is the vesting date.

Post-Employment Benefits

In the periods presented, the Company participated in a 401(k) Plan sponsored by Vivint that covered all of the Company's eligible employees. The Company did not provide a discretionary company match to employee contributions during any of the periods presented.

Non-Controlling Interests and Redeemable Non-Controlling Interests

Non-controlling interests and redeemable non-controlling interests represent fund investors' interest in the net assets of certain consolidated investment funds, which have been entered into by the Company in order to finance the costs of solar energy systems under long-term customer contracts. The Company has determined that the provisions in the contractual arrangements represent substantive profit-sharing arrangements. The Company has further determined that the appropriate methodology for attributing income and loss to the non-controlling interests and redeemable non-controlling interests each period is a balance sheet approach referred to as the hypothetical liquidation at book

value (“HLBV”) method. Under the HLBV method, the amounts of income and loss attributed to the non-controlling interests and redeemable non-controlling interests in the consolidated statements of operations reflect changes in the amounts the fund investors would hypothetically receive at each balance sheet date under the liquidation provisions of the contractual agreements of these structures, assuming the net assets of these funding structures were liquidated at recorded amounts. The fund investors’ non-controlling interest in the results of operations of these funding structures is determined as the difference in the non-controlling interests’ claim under the HLBV method at the start and end of each reporting period, after taking into account any capital transactions, such as contributions or distributions, between the fund and the fund investors. The use of the HLBV methodology to allocate income to the non-controlling and redeemable non-controlling interest holders may create volatility in the Company’s consolidated statements of operations as the application of HLBV can drive changes in net income available and loss attributable to non-controlling interests and redeemable non-controlling interests from quarter to quarter.

The Company classifies certain non-controlling interests with redemption features that are not solely within the control of the Company outside of permanent equity on its consolidated balance sheets. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date as determined by the HLBV method or their estimated redemption value in each reporting period.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Company considers the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as the Company's ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the Company determines that a loss is possible and the range of the loss can be reasonably determined, then the Company discloses the range of the possible loss. The Company regularly evaluates current information available to determine whether an accrual is required, an accrual should be adjusted or a range of possible loss should be disclosed.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, Leases (Topic 842). The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This update primarily changes the recognition by lessees of lease assets and liabilities for leases currently classified as operating leases. Lessor accounting remains largely unchanged. This update is effective in fiscal years beginning after December 15, 2018 for public business entities and early adoption is permitted. The amendments should be applied using a modified retrospective approach. The Company has operating leases that will be affected by this update and is evaluating the impact on its consolidated financial statements and disclosures. The Company expects to apply the update upon its effectiveness in the first quarter of 2019.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This update is effective in fiscal years beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact this update will have on its consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments. Under current GAAP, an acquirer is required to retrospectively adjust any provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. To simplify the accounting for adjustments to provisional amounts, the update eliminates the requirement to retrospectively account for those adjustments. This update is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. The Company does not currently have acquisitions which would be affected by this update.

In August 2015, the FASB issued ASU 2015-15, Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which addresses an

omission in ASU 2015-03. In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs be presented as a direct reduction from the carrying amount of that debt liability similar to debt discounts. Existing recognition and measurement guidance is not impacted. However, ASU 2015-15 acknowledges that ASU 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Per ASU 2015-15, an entity may defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-15 is effective immediately. ASU 2015-03 is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. The Company has debt issuance costs related to line-of-credit arrangements and has adopted ASU 2015-15, which resulted in no change of presentation. If the Company enters into other debt arrangements that fall under ASU 2015-03, the Company will account for any related debt issuance costs per the update upon its effectiveness in the first quarter of 2016.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which defers the effective date of ASU 2014-09. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2015-14 defers the effective date of ASU 2014-09 for one year, and the standard is now effective for the Company on January 1, 2018. The deferral allows for early adoption of the standard, which for the Company would be on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating which transition method to use for adopting ASU 2014-09 when required and does not expect the update to have a significant impact on its consolidated financial statements and related disclosures based on its current business model.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customers Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance regarding the accounting for fees paid by a customer in cloud computing arrangements. If a cloud computing arrangement includes a software license, the payment of fees should be accounted for in the same manner as the acquisition of other software licenses. If there is no software license, the fees should be accounted for as a service contract. The update is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company does not expect that this update will have a significant impact on its consolidated financial statements and disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This update makes some targeted changes to current consolidation guidance. These changes impact both the voting and the variable interest consolidation models. In particular, the update will change how companies determine whether limited partnerships or similar entities are VIEs. The update is effective in fiscal years, including interim periods, beginning after December 15, 2015, and early adoption is permitted. The Company currently consolidates all VIEs in which it has an equity interest and does not expect that ASU 2015-02 will have a significant impact on its consolidated financial statements and related disclosures.

3.Fair Value Measurements

The Company measures and reports its cash equivalents at fair value. The following tables set forth the fair value of the Company’s financial assets measured on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2015			
	Level I	Level II	Level III	Total
Financial Assets				
Time deposits	$—	$1,900	$—	$1,900
Total financial assets	$—	$1,900	$—	$1,900

	December 31, 2014			
	Level I	Level II	Level III	Total
Financial Assets				
Time deposits	$—	$1,900	$—	$1,900
Money market funds	607	—	—	607
Total financial assets	$607	$1,900	$—	$2,507

The carrying amounts of certain financial instruments of the Company, consisting of cash and cash equivalents excluding time deposits; accounts receivable; accounts payable; accounts payable—related party and distributions payable to redeemable non-controlling interests (all Level I) approximate fair value due to their relatively short maturities. Time deposits (Level II) approximate fair value due to their short-term nature (30 days) and, upon renewal, the interest rate is adjusted based on current market rates. The Company's long-term debt is carried at cost and was $415.9 million and $105.0 million as of December 31, 2015 and 2014. The Company estimated the fair value of long-term debt to approximate its carrying value as interest accrues at a floating rate based on market rates. The Company did not have realized gains or losses related to financial assets for any of the periods presented.

4.Solmetric Acquisition

In January 2014, the Company completed the acquisition of Solmetric (the "Solmetric Acquisition"), a developer and manufacturer of photovoltaic installation devices and software products. The purchase price agreed to in the purchase agreement with Solmetric was $12.0 million plus a net working capital adjustment resulting in total cash purchase consideration of $12.2 million. The total consideration of $12.2 million was used for the purchase of all outstanding stock and options of Solmetric, settlement of Solmetric's short-term promissory note and settlement of other liabilities including employee-related liabilities of Solmetric incurred in connection with the acquisition. The Company incurred $0.3 million of costs related to retention bonuses to key Solmetric employees and $0.1 million of transaction fees, all of which were included in the consolidated statements of operations for the year ended December 31, 2014.

Pursuant to the terms of the purchase agreement, $1.0 million of the purchase consideration was placed in escrow and was held for general representations and warranties, rather than specific contingencies or specific assets or liabilities of the Company. The Company had no right to these funds, nor did it have a direct obligation associated with them. Accordingly, the Company did not include the escrow funds in its consolidated balance sheets. Notwithstanding any prior claims to the escrow fund due to a breach of representations and warranties, the escrow was released on the one year anniversary of the Solmetric Acquisition.

The estimated fair values of the assets acquired and liabilities assumed were based on information obtained from various sources including third party valuations, management's internal valuation and historical experience. The fair values of the intangible assets related to customer relationships, trade names and trademarks, developed technology and in-process research and development were determined using the income approach and significant estimates relate to assumptions as to the future economic benefits to be received, cash flow projections and discount rates.

The purchase price was allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition. The purchase price allocation was finalized as of December 31, 2014.

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

Cash acquired	$139
Inventories	580
Other current assets acquired	221
Property	77
Customer relationships	738
Trademarks/trade names	1,664
Developed technology	1,295
In-process research and development	2,097
Goodwill	7,056
Deferred tax liability, net	(1,478)
Current liabilities assumed	(210)
Total	$12,179

Goodwill, which represents the purchase price in excess of the fair value of net assets acquired, is not deductible for income tax purposes. This goodwill is reflective of the value derived from the Company utilizing Solmetric's advanced technology to improve the installation and efficacy of its solar panels as well as the expected growth in the Solmetric business, based on its historical performance and the expectation of continued growth as the solar industry expands.

For tax purposes, the acquired intangible assets are not amortized. Accordingly, a deferred tax liability of $2.5 million was recorded for the difference between the book and tax basis related to the intangible assets. Additionally, a deferred tax asset of $1.0 million was recorded mainly as a result of Solmetric's net operating losses.

Financial results for Solmetric since the acquisition date are included in the results of operations for the year ended December 31, 2014. Solmetric contributed $3.2 million of revenues and $0.4 million of net income for the year ended December 31, 2014. During 2015, the Company discontinued the external sale of two Solmetric products. This discontinuance was considered an indicator of impairment, and the Company performed a review regarding the recoverability of the carrying value of the related intangible assets. As a result of this review, the Company recorded an impairment charge of $4.5 million in the first quarter of 2015.

Unaudited Solmetric Pro Forma Information

The following pro forma financial information is based on the historical financial statements of the Company and presents the Company's results as if the Solmetric Acquisition had occurred as of January 1, 2013 (in thousands):

	Years Ended December 31,	
	2014	2013
Pro forma revenue	$25,380	$9,122
Pro forma net loss	(165,734)	(57,046)
Pro forma net (loss attributable) income available to common stockholders	(28,698)	5,062

The unaudited pro forma results include the accounting effects resulting from the Solmetric Acquisition, such as the amortization charges from acquired intangible assets, reversal of costs related to special retention bonuses and other payments to employees and transaction costs directly related to the Solmetric Acquisition, elimination of intercompany sales and reversal of the related tax effects. The pro forma information presented does not purport to present what the actual results would have been had the Solmetric Acquisition actually occurred on January 1, 2013, nor is the information intended to project results for any future period.

5.Solar Energy Systems

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

	December 31, 2015	December 31, 2014
System equipment costs	$893,088	$478,502
Initial direct costs related to solar energy systems	171,081	75,349
	1,064,169	553,851
Less: Accumulated depreciation and amortization	(32,505)	(10,186)
	1,031,664	543,665
Solar energy system inventory	70,493	44,502
Solar energy systems, net	$1,102,157	$588,167

Solar energy system inventory represents the solar components and materials used in the installation of solar energy systems prior to being installed on customers' roofs. As such, no depreciation is recorded related to this line item. The Company recorded depreciation and amortization expense related to solar energy systems of $22.3 million, $8.1 million and $2.0 million for the years ended December 31, 2015, 2014 and 2013.

6.Property and Equipment

Property and equipment, net consisted of the following (in thousands):

	Estimated Useful Lives	December 31, 2015	December 31, 2014
Vehicles acquired under capital leases	3 years	$24,149	$13,351
Furniture and computer and other equipment	3 years	6,524	2,183
Leasehold improvements	1-3 years	4,116	2,088
		34,789	17,622
Less: Accumulated depreciation and amortization		(12,181)	(4,598)

	22,608	13,024
Build-to-suit lease asset under construction	25,560	—
Property and equipment, net	$ 48,168	$ 13,024

The Company recorded depreciation and amortization related to property and equipment of $8.2 million, $3.4 million and $1.2 million for the years ended December 31, 2015, 2014 and 2013.

The Company leases fleet vehicles that are accounted for as capital leases and are included in property and equipment, net. Depreciation on vehicles under capital leases totaling $5.5 million, $3.0 million and $1.2 million was capitalized in solar energy systems, net for the years ended December 31, 2015, 2014 and 2013. For the years ended December 31, 2015 and 2014, a de minimis amount of depreciation was also expensed. For the year ended December 31, 2013, no depreciation was expensed.

Because of its involvement in certain aspects of the construction of a new headquarters building in Lehi, UT, the Company is deemed the owner of the building for accounting purposes during the construction period. Accordingly, the Company recorded a build-to-suit lease asset of $25.6 million as of December 31, 2015. See Note 16—Commitments and Contingencies.

Future minimum lease payments for vehicles under capital leases as of December 31, 2015 were as follows (in thousands):

Years Ending December 31,	
2016	$6,405
2017	5,679
2018	4,136
2019	1,008
2020	36
Thereafter	—
Total minimum lease payments	17,264
Less: interest	1,720
Present value of capital lease obligations	15,544
Less: current portion	5,489
Long-term portion	$10,055

7.Intangible Assets and Goodwill

Intangible assets consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Cost:		
Internal-use software	$ 1,591	$ 370
Developed technology	522	1,295
Trademarks/trade names	201	1,664
Customer relationships	164	738
Customer contracts	—	43,783
In-process research and development	—	2,097
Total carrying value	2,478	49,947
Accumulated amortization:		
Internal-use software	(219)	—
Developed technology	(126)	(160)
Trademarks/trade names	(39)	(152)
Customer relationships	(63)	(135)
Customer contracts	—	(31,013)
Total accumulated amortization	(447)	(31,460)
Total intangible assets, net	$ 2,031	$ 18,487

The Company recorded amortization expense of $13.2 million for the year ended December 31, 2015, $14.9 million for the year ended December 31, 2014, of which $0.1 million was recorded in cost of revenue-solar energy system and product sales, and $14.6 million for the year ended December 31, 2013. Customer contracts acquired in the Acquisition were fully amortized in 2015.

In February 2015, the Company decided to discontinue the external sales of the SunEye and PV Designer products, the rights to which the Company acquired when it acquired Solmetric Corporation, or Solmetric, in January 2014. This discontinuance was considered an indicator of impairment, and a review regarding the recoverability of the carrying value of the related intangible assets was performed. In-process research and development, which was intended to generate Solmetric product sales in the residential market, was discontinued and deemed fully impaired resulting in a charge of $2.1 million. The Solmetric, SunEye and PV Designer trade names will no longer be utilized and were deemed fully impaired resulting in a charge of $1.3 million. The SunEye and PV Designer developed technology assets were deemed fully impaired resulting in a charge of $0.7 million. Customer relationships were deemed partially impaired by $0.4 million due to the loss of external customers who purchased the discontinued products. As a result of this review, the Company recorded a total impairment charge of $4.5 million for the year ended December 31, 2015. No impairment was recorded in the years ended December 31, 2014 and 2013.

As of December 31, 2015, expected amortization expense for the unamortized intangible assets is as follows (in thousands):

Years Ending December 31,	
2016	$656
2017	558
2018	475
2019	129
2020	86
Thereafter	127
Total	$2,031

No changes to goodwill were recorded for the year ended December 31, 2015. The carrying amount of goodwill for the years ended December 31, 2015 and 2014 was $36.6 million.

8.Accrued Compensation

Accrued compensation consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Accrued payroll	$ 6,918	$ 10,219
Accrued commissions	6,840	6,575
Total accrued compensation	$ 13,758	$ 16,794

9.Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Accrued professional fees	$ 7,918	$ 1,289
Income tax payable	6,169	4,097
Current portion of lease pass-through financing obligation	3,835	—
Sales and use tax payable	3,524	5,052
Accrued litigation settlements	1,790	450
Deferred rent	1,064	1,090

Accrued unused commitment fees and interest	1,014	478
Other accrued expenses	3,703	1,560
Total accrued and other current liabilities	$ 29,017	$ 14,016

10.Debt Obligations

Debt obligations consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Aggregation credit facility	$ 269,100	$ 105,000
Working capital credit facility	146,750	—
Total debt	$ 415,850	$ 105,000

Bank of America, N.A. Aggregation Credit Facility

In September 2014, the Company entered into an aggregation credit facility (the "Aggregation Facility"), which was subsequently amended in February 2015 and November 2015, pursuant to which the Company may borrow up to an aggregate of $375.0 million and, upon the satisfaction of certain conditions and the approval of the lenders, up to an additional aggregate of $175.0 million in borrowings with certain financial institutions for which Bank of America, N.A. is acting as administrative agent.

The February 2015 amendment to the Aggregation Facility increased the funding commitment by $25.0 million pursuant to which the Company may borrow up to an aggregate of $375.0 million. In addition, the right to which the Company may request additional borrowing capacity, upon the satisfaction of certain conditions and the approval of the lenders, was reduced to $175.0 million, such that the total potential capacity under the facility remains at $550.0 million. The other terms of the Aggregation Facility remained unchanged.

The November 2015 amendments primarily included (1) changing the formula for determining the amount that the Company may borrow subject to the satisfaction of certain conditions, without changing the $375.0 million loan commitment, enabling the Company to draw additional loan proceeds from the existing conditions satisfied, (2) converting the facility from a term facility into a revolving facility and (3) requiring the Company to enter into an interest rate hedging agreement before September 13, 2016. For accounting purposes, the Aggregation Facility is considered a modification of the term loan credit facility entered into in May 2014 described below.

Prepayments are permitted under the Aggregation Facility, and the principal and accrued interest on any outstanding loans mature in March 2018. Under the Aggregation Facility, interest on borrowings accrues at a floating rate equal to either (1)(a) the London Interbank Offer Rate ("LIBOR") or (b) the greatest of (i) the Federal Funds Rate plus 0.5%, (ii) the administrative agent's prime rate and (iii) LIBOR plus 1% and (2) a margin that varies between 3.25% during the period during which the Company may incur borrowings and 3.50% after such period. Interest is payable at the end of each interest period that the Company may elect as a term of either one, two or three months.

The borrower under the Aggregation Facility is Vivint Solar Financing I, LLC, one of the Company's indirect wholly owned subsidiaries, which in turn holds the Company's interests in the managing members in the Company's existing investment funds. These managing members guarantee the borrower's obligations under the Aggregation Facility. In addition, Vivint Solar Holdings, Inc. has pledged its interests in the borrower, and the borrower has pledged its interests in the guarantors as security for the borrower's obligations under the Aggregation Facility. The related solar energy systems are not subject to any security interest of the lenders, and there is no recourse to the Company in the case of a default.

The Aggregation Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Aggregation Facility provides that the borrower may

not incur any indebtedness other than that related to the Aggregation Facility or in respect of permitted swap agreements, and that the guarantors may not incur any indebtedness other than that related to the Aggregation Facility or as permitted under existing investment fund transaction documents. These restrictions do not impact the Company's ability to enter into investment funds, including those that are similar to those entered into previously. As of December 31, 2015, the Company was in compliance with such covenants. As of December 31, 2015, the Company has not entered into any interest rate hedges as required by the latest debt modification.

As of December 31, 2015, the Company had incurred an aggregate of $269.1 million in borrowings under the Aggregation Facility. The remaining borrowing capacity was $105.9 million as of December 31, 2015. However, the Company does not have immediate access to the remaining $105.9 million balance as future borrowings are dependent on when it has solar energy system revenue to collateralize the borrowings.

The Aggregation Facility also contains certain customary events of default. If an event of default occurs, lenders under the Aggregation Facility will be entitled to take various actions, including the acceleration of amounts due under the Aggregation Facility and foreclosure on the interests of the borrower and the guarantors that have been pledged to the lenders.

Interest expense was approximately $9.9 million and $1.4 million in the years ended December 31, 2015 and 2014. As of December 31, 2015, the current portion of deferred financing costs of $4.0 million was recorded in prepaid expenses and other current assets, and the long-term portion of deferred financing costs of $4.9 million was recorded in other non-current assets, net in the consolidated balance sheet. In addition, a $5.0 million interest reserve amount was deposited in an interest reserve account with the administrative agent and is included in restricted cash and cash equivalents. The interest reserve increases as borrowings increase under the Aggregation Facility.

Working Capital Credit Facility

In March 2015, the Company entered into a revolving credit agreement (the “Working Capital Facility”) pursuant to which the Company may borrow up to an aggregate principal amount of $131.0 million from certain financial institutions for which Goldman Sachs Lending Partners LLC is acting as administrative agent and collateral agent. In May 2015, certain conditions were satisfied and the aggregate amount of available revolver borrowings was increased to $150.0 million. Loans under the Working Capital Facility will be used to pay for the costs incurred in connection with the design and construction of solar energy systems, and letters of credit may be issued for working capital and general corporate purposes. As of December 31, 2015, the Company had incurred an aggregate of $146.8 million in borrowings under the Working Capital Facility. Further, the Company established a letter of credit under the Working Capital Facility for $3.2 million related to an insurance contract. As such, there was no remaining borrowing capacity available as of December 31, 2015.

The Company has pledged the interests in the assets of the Company and its subsidiaries, excluding Vivint Solar Financing I, LLC, as security for its obligations under the Working Capital Facility. Prepayments are permitted under the Working Capital Facility, and the principal and accrued interest on any outstanding loans mature in March 2020. Interest accrues on borrowings at a floating rate equal to, dependent on the type of borrowing, (1) a rate equal to the Eurodollar Rate for the interest period divided by one minus the Eurodollar Reserve Percentage, plus a margin of 3.25%; or (2) the highest of (a) the Federal Funds Rate plus 0.50%, (b) the Citibank prime rate and (c) the one-month interest period Eurodollar rate plus 1.00%, plus a margin of 2.25%. Interest is payable dependent on the type of borrowing at the end of (1) the interest period that the Company may elect as a term and not to exceed three months, (2) quarterly or (3) at maturity of the Working Capital Facility.

The Working Capital Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the Company’s ability to incur indebtedness, incur liens, make investments, make fundamental changes to its business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Working Capital Facility provides that the Company may not incur any indebtedness other than that related to the Working Capital Facility or permitted swap agreements. These restrictions do not impact the Company’s ability to enter into investment funds, including those that are similar to those entered into previously. The Company is also required to maintain $25.0 million in cash and cash equivalents and certain investments as of the last day of each quarter. As of December 31, 2015, the Company was in compliance with such covenants.

The Working Capital Facility also contains certain customary events of default. If an event of default occurs, lenders under the Working Capital Facility will be entitled to take various actions, including the acceleration of amounts then outstanding.

Interest expense for this facility was approximately $2.3 million for the year ended December 31, 2015. As of December 31, 2015, the current portion of deferred debt issuance costs of $0.5 million was recorded in prepaid expenses and other current assets, and the long-term portion of deferred debt issuance costs of $1.8 million was recorded in other non-current assets, net in the consolidated balance sheet.

Bank of America, N.A. Term Loan Credit Facility

In May 2014, the Company entered into a term loan credit facility for an aggregate principal amount of $75.5 million with certain financial institutions for which Bank of America, N.A. acted as administrative agent. In September 2014 in connection with the entry into the Aggregation Facility, the Company repaid the then outstanding $75.5 million in aggregate borrowings and terminated the agreement. Under this credit facility, the Company incurred interest on the term borrowings that accrued at a floating rate based on (1) LIBOR plus a margin equal to 4%, or (2) a rate equal to 3% plus the greatest of (a) the Federal Funds Rate plus 0.5%, (b) the administrative agent’s prime rate and (c) LIBOR plus 1%. Interest expense from inception of this credit facility in May 2014 through payoff in September 2014 was approximately $1.3 million.

The credit facility included customary covenants, including covenants that restricted, subject to certain exceptions, the Company's ability to incur indebtedness, incur liens, make investments, make fundamental changes to the Company's business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. As of the day on which borrowings under the credit facility were repaid, the Company was in compliance with all such covenants. In addition, the $1.6 million interest reserve amount that was deposited in an interest reserve account with the administrative agent was released upon termination of the credit facility.

Revolving Lines of Credit—Related Party

On October 9, 2014, the Company repaid $58.8 million in aggregate borrowings and interest owed to Vivint under the 2013 Loan Agreement and the 2012 Loan Agreement defined below. These loan agreements were terminated upon repayment.

In May 2013, the Company entered into a Subordinated Note and Loan Agreement with APX Parent Holdco, Inc., pursuant to which the Company was able to incur up to $20.0 million in revolver borrowings ("2013 Loan Agreement"). From May 2013 through December 2013, the Company incurred $18.5 million in principal borrowings under the agreement. Interest accrued on these borrowings at 12% per year through November 2013 and 20% per year thereafter, and accrued interest was paid-in-kind through additions to the principal amount on a semi-annual basis. In January 2014, the Company amended and restated the 2013 Loan Agreement, pursuant to which the Company was able to incur an additional $30.0 million in revolver borrowings, resulting in a total borrowing capacity of $50.0 million, with interest on the borrowings accruing at a rate of 12% per year. From January 2014 through September 2014, the Company incurred an aggregate of $154.5 million in revolver borrowings under the 2013 Loan Agreement of which $141.5 million was repaid within one to eight days from the respective borrowing date. None of these borrowings individually exceeded the borrowing capacity of $50.0 million. Interest expense was $3.1 million and $1.5 million for the years ended December 31, 2014 and 2013.

In December 2012 and amended in July 2013, the Company entered into a Subordinated Note and Loan Agreement with Vivint pursuant to which the Company could incur revolver borrowings of up to $20.0 million ("2012 Loan Agreement"). In December 2012, the Company incurred $15.0 million in revolver borrowings. From January 2013 through May 2013, the Company incurred an additional $5.0 million in revolver borrowings. Interest accrued on these borrowings at 7.5% per year, and accrued interest was paid-in-kind through additions to the principal amount on a semi-annual basis. Interest expense was $1.3 million and $1.5 million for the years ended December 31, 2014 and 2013.

In November 2013, the Company entered into a Subordinated Note and Loan Agreement with APX Parent Holdco, Inc. for a one day loan of $20.0 million to obtain funding for an investment fund and repaid the full amount the next day. The imputed interest on the principal amount was not significant.

In July 2013, the Company entered into a Subordinated Note and Loan Agreement with APX Parent Holdco, Inc. for a one day loan of $40.0 million to obtain funding for an investment fund and repaid the full amount the next day. The imputed interest on the principal amount was not significant.

Interest Expense and Amortization of Deferred Financing Costs

For the years ended December 31, 2015 and 2014, total interest expense incurred under debt obligations was $12.2 million and $9.3 million, of which $3.5 million and $2.2 million was amortization of deferred financing costs. For the year ended December 31, 2013, total interest expense incurred under debt obligations was $3.1 million and did not include amortization of deferred financing costs as no deferred financing costs had been incurred.

92

11.Investment Funds

As of December 31, 2015, the Company had formed 17 investment funds for the purpose of funding the purchase of solar energy systems. The Company has aggregated the financial information of the investment funds in the table below. The aggregate carrying value of these funds' assets and liabilities (after elimination of intercompany transactions and balances) in the Company's consolidated balance sheets were as follows (in thousands):

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 12,014	$ 12,641
Accounts receivable, net	3,063	1,542
Prepaid expenses and other current assets	121	—
Total current assets	15,198	14,183
Solar energy systems, net	990,609	525,903
Other non-current assets, net	18	—
Total assets	$ 1,005,825	$ 540,086
Liabilities		
Current liabilities:		
Distributions payable to non-controlling interests and redeemable non-controlling interests	$ 11,347	$ 6,780
Current portion of deferred revenue	4,824	237
Accrued and other current liabilities	3,869	—
Total current liabilities	20,040	7,017
Deferred revenue, net of current portion	43,094	4,335
Other non-current liabilities	3,283	—
Total liabilities	$ 66,417	$ 11,352

The Company consolidates the investment funds in which it has an equity interest, and all intercompany balances and transactions between the Company and the investment funds are eliminated in the consolidated financial statements. The Company determined that each of these investment funds meets the definition of a VIE. The Company uses a qualitative approach in assessing the consolidation requirement for VIEs that focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company has considered the provisions within the contractual arrangements that grant it power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems and associated long term customer contracts to be sold or contributed to the VIE, and installation, operation and maintenance of the solar energy systems. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights. As such, the Company has determined it is the primary beneficiary of the VIEs for all periods presented. The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

Under the related agreements, cash distributions of income and other receipts by the fund, net of agreed-upon expenses and estimated expenses, tax benefits and detriments of income and loss, and tax benefits of tax credits, are assigned to the fund investor and Company's subsidiary as specified in contractual arrangements. Certain of these arrangements have call and put options to acquire the investor's equity interest as specified in the contractual agreements.

Residential Investment Funds

As of December 31, 2015, the Company had formed 16 residential investment funds. Fund investors for three of the funds are managed indirectly by the Sponsor and are considered related parties. As of December 31, 2015 and 2014, the cumulative total of contributions into the VIEs by all investors was $773.0 million and $480.2 million. Of these contributions, a cumulative total of $110.0 million was contributed by related parties in prior periods.

C&I Investment Fund

In May 2015, a wholly owned subsidiary of the Company entered into a C&I solar investment fund arrangement with a fund investor. The fund was not operational, i.e., no projects had been initiated within the fund as of December 31, 2015, and as such, the Company did not have any assets or liabilities associated with the fund. The total available committed capital under the fund is $150.0 million, which is expected to be contributed in 2016.

Lease Pass-Through Financing Obligation

In the year ended December 31, 2015, a new lease pass-through fund arrangement became operational under which the Company contributes solar energy systems and the investor contributes cash. Contemporaneously, a subsidiary of the Company entered into a master lease arrangement to lease the solar energy systems and the associated customer lease or power purchase agreements to the fund investor. The Company's subsidiary makes a tax election to pass-through the ITCs that accrue to the solar energy systems to the fund investor, who as the legal lessee of the property is allowed to claim the ITCs under Section 50(d)(5) of the Internal Revenue Code and the related regulations. The solar energy systems are included under solar energy systems, net in the consolidated balance sheets, and as of December 31, 2015, the net carrying value of the solar energy systems was $64.7 million.

Under the arrangement, the fund investor makes a large upfront payment to the Company's subsidiary and subsequent periodic payments. The Company allocates a portion of the aggregate payments received from the fund investor to the estimated fair value of the assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investor. The Company's subsidiary has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly, the Company recognizes revenue as the recapture provisions lapse assuming all other revenue recognition criteria have been met. The amounts allocated to ITCs are initially recorded as deferred revenue in the consolidated balance sheet, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives in the consolidated statements of operations based on the anniversary of each solar energy system's placed in service date over the next five years.

The Company accounts for the residual of the payments received from the fund investor, net of amounts allocated to ITCs, as a borrowing by recording the proceeds received as a lease pass-through financing obligation, which will be repaid through customer payments that will be received by the investor. Under this approach, the Company continues to account for the arrangement with the customers in its consolidated financial statements, whether the cash generated from the customer arrangements is received by the lessor or paid directly to the fund investor. A portion of the amounts received by the fund investor from customer payments is applied to reduce the lease pass-through financing obligation, and the balance is allocated to interest expense. The customer payments are recognized into revenue based on cash receipts during the period as required by GAAP. Interest is calculated on the lease pass-through financing obligation using the effective interest rate method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by a fund investor over the master lease term with the present value of the cash amounts paid by the investor to the Company, adjusted for any payments made by the Company.

The lease pass-through financing obligation is nonrecourse once the associated assets have been placed in service and all the customer arrangements have been assigned to the fund investor. However, there is a one-time future lease payment reset mechanism that is set to occur after all of the solar energy systems are delivered and placed in service. This reset date occurs when the installed capacity of the solar energy systems and their in-service dates are known or on an agreed upon date. As part of this reset process, the lease prepayment is updated to reflect certain specified conditions as they exist at such date, including the final installed capacity, cost and in-service dates of the solar energy systems. As a result of this reset process, the Company may be obligated to refund a portion of an investor's master lease prepayments or may be entitled to receive an additional master lease prepayment. Any additional master lease

prepayments by an investor would be recorded as an additional lease pass-through financing obligation, while any refunds of master lease prepayments would reduce the lease pass-through financing obligation. As of December 31, 2015, the Company had recorded financing liabilities of $47.3 million related to this fund arrangement as deferred revenue in its consolidated balance sheet.

As of December 31, 2015, the future minimum lease payments to be received from the fund investor based on the solar energy systems then under the lease pass-through fund arrangement, for each of the next five years and thereafter, were as follows (in thousands):

Years Ending December 31,	
2016	$1,701
2017	3,009
2018	3,064
2019	3,111
2020	3,159
Thereafter	10,549
Total minimum lease payments to be received	$24,593

The fund investor is responsible for services such as warranty support, accounting, lease servicing and performance reporting, which have been outsourced to the Company under administrative and maintenance service agreements.

Guarantees

With respect to the investment funds, the Company and the fund investors have entered into guaranty agreements under which the Company guarantees the performance of certain financial obligations of its subsidiaries to the investment funds. These guarantees do not result in the Company being required to make payments to the fund investors unless such payments are mandated by the investment fund governing documents and the investment fund fails to make such payment.

The Company is contractually obligated to make certain VIE investors whole for losses that the investors may suffer in certain limited circumstances resulting from the disallowance or recapture of investment tax credits. The Company has concluded that the likelihood of a significant recapture event is remote and consequently has not recorded any liability in the consolidated financial statements for any potential recapture exposure. The maximum potential future payments that the Company could have to make under this obligation would depend on the IRS successfully asserting upon audit that the fair market values of the solar energy systems sold or transferred to the funds as determined by the Company exceeded the allowable basis for the systems for purposes of claiming ITCs. The fair market values of the solar energy systems and related ITCs are determined and the ITCs are allocated to the fund investors in accordance with the funds governing agreements. Due to uncertainties associated with estimating the timing and amounts of distributions, the likelihood of an event that may trigger repayment, forfeiture or recapture of ITCs to such investors, and the fact that the Company cannot determine how the IRS will evaluate system values used in claiming ITCs, the Company cannot determine the potential maximum future payments that are required under these guarantees.

For a certain fund, if it does not have sufficient cash flows to make a stated cash distribution to the fund investor each annual period, the Company’s subsidiary (which is the managing member of the fund) is obligated to contribute additional cash sufficient to allow the investment fund to make such distribution to the fund investor. The Company has not made payments under its guarantee of performance of the obligations of the subsidiary in prior periods because the fund has generated sufficient cash flow to make the stated cash distributions to the fund investor. The Company has determined that the maximum potential exposure under the guarantee to the fund is not significant.

From time to time, the Company incurs penalties for non-performance, which non-performance may include delays in the installation process and interconnection to the power grid of solar energy systems and other factors. Based on the terms of the investment fund agreements, the Company will either reimburse a portion of the fund investor’s capital or pay the fund investor a penalty fee. As of December 31, 2015 and 2014, the Company accrued an estimated $5.2 million and $4.0 million in distributions to reimburse fund investors a portion of their capital contributions in order to true-up the investors’ expected rate of return primarily due to a delay in solar energy systems being interconnected to

the power grid.

As a result of the guaranty arrangements in certain funds, the Company is required to hold minimum cash balances of $10.0 million and $5.0 million as of December 31, 2015 and 2014, which are classified as restricted cash and cash equivalents on the consolidated balance sheets.

12.Redeemable Non-Controlling Interests, Equity and Preferred Stock

Common Stock

The Company has 1.0 billion authorized shares of common stock. As of December 31, 2015 and 2014, the Company had 106.6 million and 105.3 million shares of common stock issued and outstanding.

The Company had shares of common stock reserved for issuance as follows (in thousands):

	December 31, 2015	December 31, 2014
Shares available for grant under equity incentive plans	12,267	8,783
Stock options issued and outstanding	9,277	10,053
Long-term incentive plan	3,382	4,059
Restricted stock units issued and outstanding	930	22
Total	25,856	22,917

On October 6, 2014, the Company closed its initial public offering in which 20.6 million shares of its common stock were sold at a public offering price of $16.00 per share, which generated net proceeds, after deducting underwriting discounts and commissions and $8.8 million in offering expenses, of $300.6 million.

In August 2014, the Company issued and sold an aggregate of 2.7 million shares of common stock to 313 for $10.667 per share for aggregate proceeds of $28.5 million. In September 2014, the Company issued and sold an aggregate of 7.0 million additional shares to 313 and two of its directors for $10.667 per share for aggregate gross proceeds of $75.0 million. The Company intended for the proceeds from such sales to fund its growing operations and to bolster its financial condition in advance of its initial public offering. Subsequent to such transactions, the Company set the preliminary price range for its initial public offering, the mid-point of which was $17.00 per share. The Company determined that, for financial reporting purposes, it was appropriate to record the aggregate difference between the per share purchase price and mid-point of the preliminary price range for its initial public offering with respect to the shares sold to the two directors, or $14.8 million, as stock-based compensation expense, which was recorded in general and administrative expense. Regarding the shares of common stock sold to 313, the Company also determined that, for financial reporting purposes, it was appropriate to record the aggregate difference of $43.4 million as a deemed distribution within additional paid-in capital.

Non-Controlling Interests and Redeemable Non-Controlling Interests

Seven of the investment funds include a right for the non-controlling interest holder to elect to require the Company's wholly owned subsidiary to purchase all of its membership interests in the fund after a stated period of time (each, a "Put Option"). In one of the investment funds, the Company's wholly owned subsidiary has the right to elect to require the non-controlling interest holder to sell all of its membership units to the Company's wholly owned subsidiary (a "Call Option") after the expiration of the non-controlling interest holder's Put Option. In the six other investment funds that have Put Options, the Company's wholly owned subsidiary has a Call Option for a stated period prior to the effectiveness of the Put Option. In nine other investment funds there is a Call Option which is exercisable after a stated period of time. One investment fund has neither a Put Option nor a Call Option.

The purchase price for the fund investor's interest in the seven investment funds under the Put Options is the greater of fair market value at the time the option is exercised and a specified amount, ranging from $0.7 million to $4.1 million. The Put Options for these seven investment funds are exercisable beginning on the date that specified conditions are

met for each respective fund. None of the Put Options are expected to become exercisable prior to 2019.

Because the Put Options represent redemption features that are not solely within the control of the Company, the non-controlling interests in these investment funds are presented outside of permanent equity. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date (which is impacted by attribution under the hypothetical liquidation at book value method) or their estimated redemption value in each reporting period. The carrying values of redeemable non-controlling interests at December 31, 2015 and December 31, 2014 were greater than the redemption values.

The purchase price for the fund investors' interests under the Call Options varies by fund, but is generally the greater of a specified amount, which ranges from approximately $0.7 million to $7.0 million, the fair market value of such interest at the time the option is exercised, or an amount that causes the fund investor to achieve a specified return on investment. The Call Options are exercisable beginning on the date that specified conditions are met for each respective fund. None of the Call Options are expected to become exercisable prior to 2019.

Preferred Stock

In October 2014, the Company authorized 10.0 million shares of preferred stock that is issuable in series. As of December 31, 2015 and 2014, there were no series of preferred stock issued or designated.

13.Equity Compensation Plans

Equity Incentive Plans

2014 Equity Incentive Plan

In September 2014, the Company adopted the 2014 Equity Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Company may grant stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, performance shares and performance awards to its employees, directors and consultants, and its parent and subsidiary corporations' employees and consultants.

As of December 31, 2015, a total of 13.3 million shares of common stock are reserved for issuance under the 2014 plan, subject to adjustment in the case of certain events. In addition, any shares that otherwise would be returned to the Omnibus Plan (as defined below) as the result of the expiration or termination of stock options may be added to the 2014 Plan. The number of shares available for issuance under the 2014 Plan is subject to an annual increase on the first day of each year, equal to the least of 8.8 million shares, 4% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year and an amount of shares as determined by the Company. In accordance with the annual increase, an additional 4.2 million shares were reserved for issuance at the beginning of 2015 under the 2014 Plan.

As of December 31, 2015, there were 0.1 million time-based stock options, 0.8 million restricted stock units ("RSUs"), and 0.1 million performance share units ("PSUs") outstanding under the 2014 Plan. The time-based options are subject to ratable time-based vesting over four years. The RSUs are subject to ratable time-based vesting over one to four years. The PSUs vest quarterly over one to four years subject to individual participants' achievement of quarterly performance goals.

2013 Omnibus Incentive Plan; Non-plan Option Grant

In July 2013, the Company adopted the 2013 Omnibus Incentive Plan (the "Omnibus Plan"), which was terminated in connection with the adoption of the 2014 Plan in September 2014, and accordingly no additional shares are available for issuance under the Omnibus Plan. The Omnibus Plan continues to govern outstanding awards granted under the plan. In August 2013, the Company granted an option to purchase 0.6 million shares of common stock outside of the Omnibus Plan; however, the provisions of this option were substantially similar to those of the options granted pursuant to the Omnibus Plan.

During 2014 and 2013, the Company granted options of which one-third are subject to ratable time-based vesting over a five year period and two-thirds are subject to vesting upon certain performance conditions and the achievement of certain investment return thresholds by 313. The options have a ten-year contractual period.

In April 2014, the Company amended the vesting schedules of certain options outstanding under the Omnibus Plan and the option granted outside of the Omnibus Plan described above to provide that a portion of each of these options vests upon the Company's aggregate market capitalization (using the 30-day, volume-weighted average closing bid price listed on the New York Stock Exchange) being equal to or exceeding $1.0 billion at the end of any trading day at least 240 days following the completion of the Company's public offering.

During the year ended December 31, 2015, the first performance condition was met and 3.3 million performance-based options immediately vested and became exercisable during the second quarter of 2015. The Company accelerated all remaining expense related to the vested options for the first performance condition, resulting in additional stock-based compensation expense of approximately $7.4 million in the second quarter of 2015. For the year ended December 31, 2015, the Company recognized total expense of $10.8 million related to performance-based options. As of December 31, 2015, there were 3.2 million shares subject to outstanding options that are subject to performance and market conditions that have not yet been met. During the year ended December 31, 2014, the Company recorded $5.8 million in stock-based compensation related to the performance conditions as it became probable the performance conditions would be met.

Long-term Incentive Plan

In July 2013, the Company's board of directors approved 4.1 million shares of common stock for six Long-term Incentive Plan Pools ("LTIP Pools") that comprise the 2013 Long-term Incentive Plan (the "LTIP"). The purpose of the LTIP is to attract and retain key service providers and strengthen their commitment to the Company by providing incentive compensation measured by reference to the value of the shares of the Company's common stock. Eligible participants include nonemployee direct sales personnel, who sell the solar energy system contracts, employees that install and maintain the solar energy systems and employees that recruit new employees to the Company.

Based on the terms of the agreement, participants are allocated a portion of the LTIP Pools relative to the performance of other participants. LTIP awards to employees are considered to be granted when the allocation of the LTIP Pools to each participant is fixed, which occurs once performance and service conditions are met. The Company amended five of six of the LTIP Pools in April 2014 and the final pool in August 2014. The amendment modified the date on which each participant's award is fixed from the date of a public offering to a subsequent date based on fulfilling certain service or other performance conditions based on stockholder returns, which will be the same date on which the award vests.

Nonemployee awards are granted and will be measured on the date on which the performance is complete, which is the date the service or other performance conditions are achieved. The Company recognizes stock-based compensation expense based on the lowest aggregate fair value of the non-employee awards at the reporting date.

During the year ended December 31, 2015, 0.6 million shares of common stock were awarded to participants under the LTIP. As of December 31, 2015, 3.4 million shares remained outstanding, as 0.1 million shares represented the exercise price that were returned to the 2014 Plan. The Company recognized $8.3 million of expense related to these shares in the year ended December 31, 2015. No shares were awarded and no expense was recognized under the LTIP prior to the year ended December 31, 2015.

Stock Options

Stock Option Activity

Stock options are granted under the 2014 Plan and Omnibus Plan as described above. Stock option activity for the year ended December 31, 2015 was as follows (in thousands, except term and per share amounts):

	Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding—December 31, 2014	10,053	$ 1.21		$ 80,790
Granted	114	12.56		
Exercised	(595)	1.09		
Cancelled	(295)	1.23		
Outstanding—December 31, 2015	9,277	$ 1.36	7.8	$ 76,488
Options vested and exercisable—December 31, 2015	4,166	$ 1.20	7.8	$ 34,842
Options vested and expected to vest—December 31, 2015	8,964	$ 1.35	7.8	$ 73,568

The following table summarizes stock option activity by range of exercise price as of December 31, 2015 (number of awards in thousands):

	Awards Outstanding			Awards Exercisable	
Range of Exercise Price	Number of Awards Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Awards Exercisable	Weighted-Average Exercise Price
$0.00 - $1.00	5,859	7.6	$ 1.00	2,772	$ 1.00
$1.01 - $2.00	2,979	8.1	1.30	1,261	1.30
$2.01 - $10.00	320	8.5	4.14	128	4.14
$10.01 - $16.00	119	9.2	13.01	5	16.00
Total	9,277	7.8	$ 1.36	4,166	$ 1.20

The weighted-average grant date fair value of time-based options granted during the years ended December 31, 2015, 2014 and 2013 was $9.39, $4.69 and $0.91 per share. No performance-based stock options were granted during the year ended December 31, 2015. The weighted-average grant date fair value of performance-based options granted during the years ended December 31, 2014 and 2013 was $2.80 and $2.23 per share. The total intrinsic value of options exercised for the year ended December 31, 2015 was $7.4 million. There were no options exercised for the years ended December 31, 2014 and 2013. Intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the common stock for the options that had exercise prices that were lower than the fair value per share of the common stock.

The total fair value of options vested for the years ended December 31, 2015, 2014 and 2013 was $14.8 million, $1.0 million and $0.1 million.

Determination of Fair Value of Stock Options

The Company estimates the fair value of the time-based stock options granted on each grant date using the Black-Scholes-Merton option pricing model and applies the accelerated attribution method for expense recognition. The Company estimated the fair value and the vesting period of the performance-based options granted in 2013 and 2014 under the Omnibus Plan on each grant date using the Monte Carlo simulation method. No performance-based options were granted in 2015.

The fair values using the Black-Scholes-Merton method were estimated on each grant date using the following weighted-average assumptions:

	Year Ended December 31,		
	2015	2014	2013
Expected term (in years)	6.2	6.2	6.3
Volatility	89.0%	87.1%	80.0%
Risk-free interest rate	1.8 %	1.9 %	1.7 %
Dividend yield	0.0 %	0.0 %	0.0 %

Use of the Black-Scholes-Merton option-pricing model requires the input of highly subjective assumptions, including (1) the fair value of the underlying common stock, (2) the expected term of the option, (3) the expected volatility of the price of the Company's common stock, (4) risk-free interest rates and (5) the expected dividend yield of the Company's common stock. The assumptions used in the option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, the Company's stock-based compensation expense could be materially different in the future.

These assumptions and estimates are as follows:

- Fair Value of Common Stock. As the Company's common stock is publicly traded, the fair value of the Company's common stock is the close price on the grant date. Prior to the initial public offering, the fair value of common stock was estimated. The fair values of the common stock underlying the Company's stock-based awards were determined by the Company's board of directors, which considered numerous objective and subjective factors to determine the fair value of common stock at each grant date. These factors included, but were not limited to, the lack of marketability of the Company's common stock and developments in the business. A significant factor considered for awards granted approaching the initial public offering was the expected offering price.

- Expected Term. The expected term represents the period that the Company's option awards are expected to be outstanding. The Company utilized the simplified method in estimating the expected term of its options granted. The simplified method deems the term to be the average of the time to vesting and the contractual life of the options. The Company also considered additional factors including the expected lives used by a peer group of companies within the industry that it considers to be comparable to its business.

- Expected Volatility. The volatility is derived from the average historical stock volatilities of a peer group of public companies within the Company's industry that it considers to be comparable to its business over a period equivalent to the expected term of the stock-based grants. The Company did not rely on implied volatilities of traded options in the industry peers' common stock because of the low volume of activity.

- Risk-Free Interest Rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities approximately equal to the option's expected term.

· Dividend Yield. The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

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

The fair values using the Monte Carlo Simulation method were estimated on each grant date using the following weighted-average assumptions:

	Year Ended December 31,	
	2014	2013
Volatility	80.0%	80.0%
Risk-free interest rate	2.7 %	2.6 %

The assumptions used in the Monte Carlo Simulation were determined in a manner consistent with the assumptions for the Black-Scholes-Merton model. No performance-based options were granted in the year ended December 31, 2015. As such, no Monte Carlo Simulation inputs were required for 2015.

Restricted Stock Units

RSUs are granted under the 2014 Plan and the LTIP as described above. RSU activity for the year ended December 31, 2015 was as follows (awards in thousands):

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2014	22	$ 16.00
Granted	1,650	13.01
Vested	(687)	13.37
Forfeited	(55)	12.57
Outstanding at December 31, 2015	930	12.84

The total fair value of RSUs vested was $9.0 million for the year ended December 31, 2015. No RSUs vested in the years ended December 31, 2014 and 2013. The Company determines the fair value of RSUs granted on each grant date based on the fair value of the Company’s common stock on the grant date.

Stock-Based Compensation Expense

Stock-based compensation was included in operating expenses as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cost of revenue	$3,068	$1,105	$6

Sales and marketing	10,737	860	51
General and administrative	11,310	21,722	237
Research and development	489	—	—
Total stock-based compensation	$25,604	$23,687	$294

The income tax benefit related to share-based compensation expense was $4.8 million for the year ended December 31, 2015. There was no income tax benefit related to share-based compensation recognized in the years ended December 31, 2014 and 2013 as there were no option exercises or RSU releases.

In September 2014, the Company recorded $14.8 million of stock-based compensation expense in general and administrative expense related to the sale of shares of common stock to two of its directors as discussed in Note 12—Redeemable Non-Controlling Interests, Equity and Preferred Stock.

Unrecognized stock-based compensation expense, net of estimated forfeitures, for time-based stock options, performance-based stock options, RSUs and PSUs as of December 31, 2015 was as follows (in thousands, except years):

	Unrecognized Stock-Based Compensation Expense	Weighted-Average Period of Recognition
Time-based stock options	$ 2,788	3.0 years
Performance-based stock options	1,832	1.2 years
RSUs and PSUs	6,947	2.8 years
Total unrecognized stock-based compensation expense as of December 31, 2015	$ 11,567	

14.Income Taxes

The income tax expense (benefit) is composed of the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$52,578	$1,358	$2,492
State	15,275	4,035	569
Total current expense	67,853	5,393	3,061
Deferred:			
Federal	(46,364)	(9,636)	(2,900)
State	(11,752)	(2,827)	(38)
Total deferred benefit	(58,116)	(12,463)	(2,938)
Income tax expense (benefit)	$9,737	$(7,070)	$123

The Company operates in only one federal jurisdiction, the United States. The following table presents a reconciliation of the tax benefit computed at the statutory federal rate and the Company's tax expense (benefit) (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Income tax benefit—computed as 35% of pretax loss	$(85,235)	$(60,546)	$(19,721)
Effect of non-controlling interests and redeemable non-controlling interests	93,221	47,962	21,737
Effect of domestic production activities deduction	(4,699)	—	—
Effect of nondeductible expenses	1,232	6,617	1,439
State and local income tax expenses	2,289	616	343
Amortization of prepaid tax asset	6,661	2,199	474
Effect of tax credits	(4,106)	(3,939)	(4,472)
Other	374	21	323

Income tax expense (benefit)	$9,737	$(7,070)	$123

Deferred income taxes reflect the impact of temporary differences between assets and liabilities for financial reporting purposes and the amounts recognized for income tax reporting purposes, net operating loss carryforwards and other tax credits measured by applying currently enacted tax laws. The significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
Stock-based compensation	$9,068	$3,738
Accruals and reserves	4,582	3,335
Transaction costs	4,216	—
Other	395	743
Gross deferred tax assets	18,261	7,816
Valuation allowance	(212)	(222)
Net deferred tax assets	18,049	7,594
Deferred tax liabilities:		
Investment in solar funds	(220,803)	(106,664)
Depreciation and amortization	(13,004)	(9,493)
Accruals and reserves	(275)	—
Gross deferred tax liabilities	(234,082)	(116,157)
Net deferred tax liabilities	$(216,033)	$(108,563)

The Company sells solar energy systems to the investment funds for income tax purposes. As the investment funds are consolidated by the Company, the gain on the sale of the solar energy systems is not recognized in the consolidated financial statements. However, this gain is recognized for tax reporting purposes. Since these transactions are intercompany sales for GAAP purposes, any tax expense incurred related to these intercompany sales is deferred and amortized over the estimated useful life of the underlying solar energy systems, which has been estimated to be 30 years. Accordingly, the Company has recorded a prepaid tax asset, net of $277.5 million and $111.9 million as of December 31, 2015 and 2014.

The future reversal of deferred tax liabilities is expected to produce a sufficient source of future taxable income of the necessary character and in the necessary periods and jurisdictions to support the realization of the deferred tax assets. As such, no valuation allowance is required except for as noted below.

The Company had net operating loss carryforwards of approximately zero and $0.3 million related to federal and $1.3 million and $1.5 million related to state (collectively the "NOLs"), available to offset future taxable income as of December 31, 2015 and 2014. The NOLs expire in varying amounts from 2028 through 2034 for state tax purposes if unused. As of December 31, 2015 and 2014, the Company recognized a valuation allowance of $0.2 million for the existing state NOLs and other existing state tax attributes due to state-imposed limitations on their utilization.

The Company reported federal business tax credits, primarily composed of federal investment tax credits, of $4.1 million and $3.9 million for the years ended December 31, 2015 and 2014. The Company accounts for its federal business tax credits as a reduction of income tax expense in the year in which the credits arise.

Uncertain Tax Positions

As of December 31, 2015 and 2014, the Company had no unrecognized tax benefits. There were no interest and penalties accrued for any uncertain tax positions as of December 31, 2015 and 2014. 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 12 months of the year ended December 31, 2015. The Company is subject to taxation and files income tax returns in the United States and various state and local jurisdictions. Substantially all of the Company's federal, state and local income tax returns since inception are still subject to audit.

15.Related Party Transactions

The Company's operations included the following expenses from related party transactions (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cost of revenue—operating leases and incentives	$6,054	$7,834	$1,558
Sales and marketing	2,133	2,312	866
General and administrative	5,241	5,909	2,323
Interest expense[(1)]	—	4,481	2,924

[(1)] Includes revolving lines of credit—related party. See Note 10—Debt Obligations.

Vivint Services

The Company has negotiated and entered into a number of agreements with Vivint related to services and other support that Vivint provides to the Company.

In July 2015, in connection with the Merger Agreement, the Company, Vivint and SunEdison entered into a letter agreement subject to the close of the merger. Most of the obligations under the letter agreement were terminated in connection with the termination of the Merger Agreement. However, the letter agreement did immediately terminate a schedule to the Marketing and Customer Relations Agreement between the Company and Vivint.

In 2014, the Company entered into agreements with Vivint that included the following:

- Master Intercompany Framework Agreement. This agreement establishes a framework for the relationship between the Company and Vivint, including master terms regarding the protection of each other's confidential information, and master procedural terms, such as notice procedures, restrictions on assignment, interpretive provisions, governing law and dispute resolution.
- Non-Competition Agreement. This agreement defines each company's current areas of business and competitors, and the Company and Vivint agree not to directly or indirectly engage in the other's business for three years.
- Transition Services Agreement. Pursuant to this agreement Vivint provides the Company various enterprise services that it has historically provided to the Company. Under this agreement, Vivint agreed to provide the services at the same degree of care and diligence that it takes in performing services for its own operations. These services include information technology and infrastructure, employee benefits and certain other services. In exchange, the Company pays Vivint for the services, which represents Vivint's good faith estimate of their full cost of providing the services to the Company, without markup or surcharge.
- Marketing and Customer Relations Agreement. This agreement governs various cross-marketing initiatives between the companies, in particular the provision of sales leads from each company to the other. The commission rate is based on the amount paid to subcontractors for performing similar lead generation services. The term of this agreement, including the term of the schedules defining the terms of the mutual lead generation program, is three years.
- Bill of Sale. Under this agreement, Vivint transferred certain assets such as office equipment from Vivint to the Company.
- Trademark License Agreement. Pursuant to this agreement, the licensor, a subsidiary majority-owned by Vivint and minority-owned by the Company, granted to the Company a royalty-free exclusive license to the trademark "VIVINT SOLAR" in the field of selling renewable energy or energy storage products and services. The agreement is perpetual but may be terminated voluntarily by the Company or by the licensor upon certain specified termination events.

Vivint retains ownership of the Vivint trademark and the Company has no right to use “Vivint” except as part of “VIVINT SOLAR”.

The Company incurred fees under these agreements of $8.0 million for the year ended December 31, 2015 and $2.2 million in 2014 following the Company’s initial public offering. These amounts reflect the level of services provided by Vivint on behalf of the Company.

In June 2013, the Company entered into a full service sublease agreement (the "Sublease Agreement") with Vivint, which was applied retroactively to be in effect as of January 1, 2013. Under the Sublease Agreement, Vivint provided various administrative services, such as management, human resources, information technology, facilities and use of corporate office space to the Company. The Company paid Vivint a monthly services fee and rent based on headcount and square footage used. In connection with the Company's initial public offering, the Sublease Agreement was amended to focus exclusively on real estate issues. In 2011, and amended June 2013, the Company entered into a trademark / service mark license agreement ("Trademark Agreement") with Vivint, pursuant to which the Company paid Vivint a monthly fee in exchange for rights to use certain trademarks, based on kilowatt hours produced by the solar energy systems each month. In June 2013, the Trademark Agreement was amended and restated to grant the Company a royalty-free, non-exclusive license to use certain Vivint marks, subject to certain quality control requirements and was applied retroactively to be in effect as of January 1, 2013. The Trademark Agreement was terminated in connection with the entry into the Trademark License Agreement described above.

The Company incurred fees under the Sublease and Trademark agreements of $7.2 million and $2.9 million for the years ended December 31, 2014 and 2013, which reflect the amount of services provided by Vivint on behalf of the Company. No fees were incurred under these agreements in the year ended December 31, 2015.

Payables to Vivint recorded in accounts payable—related party were $1.9 million and $2.1 million as of December 31, 2015 and 2014. These payables include amounts due to Vivint related to the fees incurred under the service agreements noted above, as well as other miscellaneous intercompany payables including freight, healthcare cost reimbursements and other pass-through purchases.

313 Incentive Units Plan

Incentive units from 313 were granted to certain board members of the Company. Such board members are also employees of Vivint. As a result, the related compensation expense has been allocated between the two companies based on the net equity of the respective companies at the Acquisition. The Company recorded expense of $0.2 million and corresponding noncash capital contributions from 313 during each of the years ended December 31, 2014 and 2013. No expense was incurred in the year ended December 31, 2015. The noncash capital contributions were reported as noncash contributions for services on the Consolidated Statements of Cash Flows and Redeemable Non-Controlling Interests and Equity.

Advisory Agreements

In May 2014, the Company entered into an advisory agreement with Blackstone Advisory Partners L.P., an affiliate of the Sponsor ("BAP"), under which BAP would provide financial advisory and placement services related to the Company's financing of residential solar energy systems. In August 2015, this agreement was terminated. Under the agreement, the Company was required under certain circumstances to pay a placement fee to BAP ranging from 0.75% to 1.5% of the transaction capital, depending on the identity of the investor and whether the financing related to residential or commercial projects. This agreement replaced the 2013 advisory agreement described below.

Effective May 2013, the Company entered into an advisory agreement with BAP that provided financial advisory and placement services related to the Company's financing of residential solar energy systems. Under the agreement, BAP was paid a placement fee ranging from 0% to 2% of the transaction capital, depending on the identity of the investor and how contact with the investor was established.

The Company incurred fees under these agreements of $4.4 million, $4.5 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013. The amounts were recorded in general and administrative expense in the Company's consolidated statements of operations

Advances Receivable—Related Party

Amounts due from direct-sales personnel were $2.9 million and $1.2 million as of December 31, 2015 and 2014. The Company provided a reserve of $0.7 million and $0.9 million as of December 31, 2015 and 2014 related to advances to direct-sales personnel who have terminated their employment agreement with the Company.

Transactions with 313 and Directors

In August and September 2014, the Company issued and sold shares of its common stock to 313 and two of its directors as discussed in Note 12—Redeemable Non-Controlling Interests, Equity and Preferred Stock. In April 2013, the Company received a $1.4 million capital contribution from 313. No other cash contributions were received during the periods presented.

Investment Funds

Fund investors for three of the funds are indirectly managed by the Sponsor and accordingly are considered related parties. The Company accrued equity distributions to these entities of $1.7 million and $1.3 million as of December 31, 2015 and 2014, included in distributions payable to non-controlling and redeemable non-controlling interests. See Note 11—Investment Funds. In July 2014, the Company also entered into a Backup Maintenance Servicing Agreement with Vivint in which Vivint will provide maintenance servicing of the fund assets in the event that the Company is removed as the service provider for two of the funds. No services have been performed by Vivint under this agreement.

16.Commitments and Contingencies

Non-Cancellable Leases

In September 2014, the Company entered into a non-cancellable lease whereby the Company will terminate the current lease for its corporate headquarters in Lehi, UT and move into another building being constructed in the same general location. In July 2015, the Company amended the new lease for its new corporate headquarters building that is under construction. These amendments included an extension of the lease term to 12 years from five years with the option to extend for two additional periods of five years, an increase in the leased premises by approximately 32,000 square feet and a change in the base rent that will commence at approximately $0.3 million per month and increase over the term of the lease, as amended, at a rate of 2.5% annually. As a result of the amendment, the Company expects to make total lease payments of $53.1 million over the initial term of the lease.

The Company also entered into new non-cancellable leases for the construction of a second office building and a studio building on the corporate headquarters campus that will increase the leased premises by approximately 160,000 square feet. Both leases have a term of 12 years with the option to extend for two additional periods of five years. The aggregate monthly rent payments under both leases will commence at approximately $0.4 million and increase at a rate of 2.5% annually. As a result of these new leases, the Company expects to make total lease payments of $57.5 million over the initial terms of the leases.

During each year of its operations, the Company has entered into lease agreements for warehouses and related equipment located in states in which the Company conducts operations. The warehouse lease agreements range from a term of one to seven years, with the majority having a term of three years. The equipment lease agreements, the longest of which is 12-months, include basic renewal options for an additional set period, continued renting by the month, or return of the unit.

For all non-cancellable lease arrangements, there are no bargain renewal options, penalties for failure to renew, or any guarantee by the Company of the lessor’s debt or a loan from the Company to the lessor related to the leased property. Aggregate lease expense for these non-cancellable lease arrangements was $11.0 million, $4.3 million and $1.2 million for the years ended December 31, 2015, 2014 and 2013.

Future minimum lease payments under non-cancellable leases as of December 31, 2015 were as follows (in thousands):

Years Ending December 31,	
2016	$14,223
2017	12,577
2018	10,552
2019	9,674

2020	9,295
Thereafter	81,216
Total minimum lease payments	$137,537

Build-to-Suit Lease Arrangements

As discussed in Non-Cancellable Leases, in September 2014, the Company entered into a non-cancellable lease whereby the Company will terminate the current lease for its corporate headquarters in Lehi, UT and move into another building being constructed in the same general location. Because of its involvement in certain aspects of the construction per the terms of the lease, the Company is deemed the owner of the building for accounting purposes during the construction period. Accordingly, as of December 31, 2015, the Company recorded a build-to-suit lease asset of $25.6 million in property and equipment, net, which included a $25.2 million build-to-suit lease liability in other non-current liabilities, capitalized interest of $0.3 million and building costs paid by the Company of $0.1 million.

Letters of Credit

As of December 31, 2015 and 2014, the Company had $1.8 million stand-by letter of credit related to a three-year forward contract to sell SRECs entered into in November 2013. The agreement expires in January 2017. As the Company expects to be able to deliver the SRECs required under the forward contracts, no liability has been accrued.

As of December 31, 2015, the Company had also established a letter of credit under the Working Capital Facility for $3.2 million related to an insurance contract. See Note 10—Debt Obligations.

Indemnification Obligations

From time to time, the Company enters into contracts that contingently require it to indemnify parties against claims. These contracts primarily relate to provisions in the Company's services agreements with related parties that may require the Company to indemnify the related parties against services rendered; and certain agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities. In addition, under the terms of the agreements related to the Company's investment funds and other material contracts, the Company may also be required to indemnify fund investors and other third parties for liabilities. As of December 31, 2015 and 2014, the Company accrued an estimated $5.2 million and $4.0 million in distributions to reimburse fund investors a portion of their capital contributions in order to true-up the investors' expected rate of return primarily due to a delay in solar energy systems being interconnected to the power grid and other factors.

Legal Proceedings

In December 2013, one of the Company's former sales representatives, on behalf of himself and a purported class, filed a complaint for unspecified damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against Vivint Solar Developer, LLC, one of the Company's subsidiaries, and unnamed John Doe defendants alleging violations of the California Labor Code and the California Business and Professions Code and seeking penalties of an unspecified amount, interest on all economic damages and reasonable attorney's fees and costs. In January 2014, the Company filed an answer denying the allegations in the complaint and asserting various affirmative defenses. In late 2014, the parties agreed to preliminary terms of settlement, which were subsequently revised in mid-2015. The settlement agreement provided for a settlement payment from the Company in the amount of $0.4 million. On October 30, 2015, the Court entered a final order approving the settlement agreement and the settlement payment was distributed in accordance with the settlement agreement.

In September 2014, two former installation technicians of the Company, on behalf of themselves and a purported class, filed a complaint for damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against the Company and unnamed John Doe defendants. The complaint alleges certain violations of the California Labor Code and the California Business and Professions Code based on, among other things, alleged improper classification of installer technicians, installer helpers, electrician technicians and electrician helpers, failure to pay minimum and overtime wages, failure to provide accurate itemized wage statements, and failure to provide wages on termination. In December 2014, the original plaintiffs and three additional plaintiffs filed an amended complaint with essentially the same allegations. On November 5, 2015, the parties agreed to preliminary terms of a settlement of all claims related to allegations in the complaint in return for the Company's payment of $1.7 million to be paid out to the purported class members. The settlement agreement must be approved by the Court, after notice to the purported class. As of December 31, 2015, a $1.7 million reserve was recorded related to this proceeding in the Company's consolidated financial statements.

In November and December 2014, two putative class action lawsuits were filed in the U.S. District Court for the Southern District of New York against the Company, its directors, certain of its officers and the underwriters of the

Company’s initial public offering of common stock alleging violation of securities laws and seeking unspecified damages. In January 2015, the Court ordered these cases to be consolidated into the earlier filed case, Hyatt v. Vivint Solar, Inc. et al., 14-cv-9283 (KBF). The plaintiffs filed a consolidated amended complaint in February 2015. On May 6, 2015, the Company filed a motion to dismiss the complaint and on December 10, 2015, the Court issued an Opinion and Order dismissing the complaint with prejudice. On January 5, 2016, the plaintiffs filed a Notice of Appeal to the Second Circuit Court of Appeals. The Company is unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur in this case, it is possible that the impact could be material to the Company’s results of operations in the period(s) in which any such outcome becomes probable and estimable.

On July 31, 2015, a putative class action lawsuit was filed in the Court of Chancery State of Delaware against the Company’s directors, SunEdison Inc. (“SunEdison”), and TerraForm Power (“TerraForm”), alleging that the proposed acquisition by SunEdison is unfair to the Company’s stockholders. On August 7, 2015, a second putative class action lawsuit was filed in the same court alleging similar claims, and including 313, Acquisition, LLC as a named defendant. Both complaints seek injunctive relief and unspecified damages. On or about September 10, 2015, two purported class action lawsuits were also filed in Utah's Fourth District State Court (the "Utah Actions"), alleging similar claims to the complaints previously filed in the Delaware Chancery Court. On September 22, 2015, the Company, through counsel notified plaintiff's counsel in the Utah Actions that pursuant to the Company's Articles of Incorporation, any such derivative action was subject to exclusive jurisdiction in the Delaware Chancery Court, and accordingly, the Utah Actions should be dismissed. After a December 2015 amendment to the proposed acquisition, a new complaint was filed in the Delaware Chancery Court on January 11, 2016. The new complaint alleges breach of fiduciary duty against the Company's directors, certain officers, and SunEdison, and seeks damages on behalf of a putative class. In view of the Company’s indemnification obligation to its directors, the Company is unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur in these cases, it is possible that the impact could be material to the Company’s results of operations in the period(s) in which any such outcome becomes probable and estimable.

On September 9, 2015, two of the Company’s customers, on behalf of themselves and a purported class, named the Company in a putative class action, Case No. BCV-15-100925(Cal. Super. Ct., Kern County), alleging violation of California Business and Professional Code Section 17200 and requesting relief pursuant to Section 1689 of the California Civil Code. The complaint seeks: (1) rescission of their power purchase agreements along with restitution to the plaintiffs individually and (2) declaratory and injunctive relief. On October 16, 2015, the Company moved to compel arbitration of the plaintiffs’ claims pursuant to the provisions set forth in the power purchase agreements, which the Court granted and dismissed the class claims without prejudice. Plaintiffs have appealed the Court’s order. It is not possible to estimate the amount or range of potential loss, if any, at this time.

On March 8, 2016, the Company filed suit in the Court of Chancery State of Delaware against SunEdison and SEV Merger Sub Inc. alleging that SunEdison willfully breached its obligations under the Merger Agreement pursuant to which the Company was to be acquired and breached its implied covenant of good faith and fair dealing. The Company is seeking declaratory judgment, award damages, costs and reasonable attorney’s fees and such further relief that the court finds equitable, appropriate and just. While the Company believes that SunEdison willfully breached its obligations under the Merger Agreement and that the Company’s claims have merit and are likely to succeed, the outcomes of lawsuits are inherently unpredictable.

In addition to the matters discussed above, in the normal course of business, the Company has from time to time been named as a party to various legal claims, actions and complaints. While the outcome of these matters cannot be predicted with certainty, the Company does not currently believe that the outcome of any of these claims will have a material adverse effect, individually or in the aggregate, on its consolidated financial position, results of operations or cash flows.

The Company accrues for losses that are probable and can be reasonably estimated. The Company evaluates the adequacy of its legal reserves based on its assessment of many factors, including interpretations of the law and assumptions about the future outcome of each case based on available information.

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

The Company computes basic net income (loss) per share by dividing net income available or loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could be exercised or converted into common shares, and is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding plus the effect of potentially dilutive shares to purchase common stock.

The following table sets forth the computation of the Company's basic and diluted net income available (loss attributable) per share to common stockholders for the years ended December 31, 2015, 2014 and 2013 (in thousands, except per share amounts):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income available (loss attributable) to common stockholders	$13,080	$(28,883)	$5,638
Denominator:			
Shares used in computing net income available (loss attributable) per share to common stockholders, basic	106,088	83,446	75,000
Weighted-average effect of potentially dilutive shares to purchase common stock	3,770	—	223
Shares used in computing net income available (loss attributable) per share to common stockholders, diluted	109,858	83,446	75,223
Net income available (loss attributable) per share to common stockholders			
Basic	$0.12	$(0.35)	$0.08
Diluted	$0.12	$(0.35)	$0.07

As of December 31, 2015 and 2013, stock-based awards for 3.3 million and 4.4 million underlying shares of common stock were subject to performance conditions that had not yet been met. Accordingly, these performance-based stock awards were not included in the computation of diluted net income per share for the years ended December 31, 2015 and 2013. In addition, options remaining to be granted under the LTIP Pools were not included in the computation of diluted net income per share as these shares had not been granted as of December 31, 2015 and 2013. For the years ended December 31, 2015 and 2013, a de minimis number of shares were excluded from the dilutive share calculations as the effect on net income per share would have been antidilutive. For the year ended December 31, 2014, the Company incurred net losses attributable to common stockholders. As such, the potentially dilutive shares were anti-dilutive and were not considered in the weighted-average number of common shares outstanding for that period.

18.Segment Information

Prior to the second quarter 2015, the Company had one business activity that was focused primarily on providing service to customers in the residential market. During the second quarter of 2015, the Company closed its first C&I investment fund with plans to service customers in the C&I market. As of December 31, 2015, the C&I fund was not

operational, i.e., no projects had been initiated within the fund. During the year ended December 31, 2015, the Company has aligned its operations as two reporting segments: (1) Residential and (2) C&I.

As of December 31, 2015, the Company recorded no assets related to the C&I segment. Segment loss from operations is comprised of operating unit revenue less operating expenses attributable to each operating segment. For the year ended December 31, 2015, no revenue was recognized in the C&I segment as the C&I investment fund was not operational. Operating expenses in the C&I segment included fees related to the closing of the C&I fund and costs of employees directly involved in the development of C&I. Prior to the second quarter of 2015, all reported results related to the Residential segment, and as such, no restatement of prior period segment results was necessary. Operating results by reporting segment in 2015 were as follows:

	Year Ended December 31, 2015		
	Residential	C&I	Total
Revenue:			
Operating leases and incentives	$61,150	$—	$61,150
Solar energy system and product sales	3,032	—	3,032
Total revenue	64,182	—	64,182
Operating expenses:			
Cost of revenue—operating leases and incentives	131,213	—	131,213
Cost of revenue—solar energy system and product sales	1,762	—	1,762
Sales and marketing	47,408	670	48,078
Research and development	3,901	—	3,901
General and administrative	90,438	2,226	92,664
Amortization of intangible assets	13,172	—	13,172
Impairment of intangible assets	4,506	—	4,506
Total operating expenses	292,400	2,896	295,296
Loss from operations	$(228,218)	$(2,896)	$(231,114)

19.Subsequent Events

SunEdison Acquisition

The Company previously entered into the Merger Agreement, dated as of July 20, 2015 and amended as of December 9, 2015, by and among SunEdison, SEV Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of SunEdison, and the Company, pursuant to which the Company was to have been acquired by SunEdison. The Company terminated the Merger Agreement on March 7, 2016.

On March 8, 2016, the Company filed suit in the Court of Chancery State of Delaware against SunEdison alleging that SunEdison willfully breached its obligations under the Merger Agreement and breached its implied covenant of good faith and fair dealing. The Company is seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just. While the Company believes that SunEdison willfully breached its obligations under the Merger Agreement and that the Company's claims have merit and are likely to succeed, the outcomes of lawsuits are inherently unpredictable.

Term Loan Facility

On March 14, 2016, Vivint Solar Financing Holdings, LLC, one of the Company's subsidiaries, entered into a financing agreement pursuant to which it may borrow up to an aggregate principal amount of $200.0 million of term loan borrowings from investment funds and accounts advised by Highbridge Principal Strategies, LLC. The Company refers to such financing agreement as the "term loan facility." The Company will initially incur $75.0 million in borrowings, one-third at closing and the remainder within 30 days of the closing date. Such initial borrowings are referred to as "Tranche A" borrowings. The remaining $125.0 million aggregate principal amount in borrowings may be incurred in three installments of at least $25.0 million aggregate principal amount prior to the first anniversary of the

closing date. Such subsequent borrowings, if any, are referred to as “Tranche B” borrowings. If no Tranche B borrowings are incurred, the Company must repay outstanding Tranche A borrowings in December 2016. If any Tranche B borrowings are incurred, the maturity date for all borrowings will be extended to the fourth anniversary of the closing date. If any Tranche B borrowings are incurred, the Company may not prepay any borrowings until the second anniversary of the closing date and any subsequent prepayments are subject to a fee equal to a 3.0% penalty. Borrowings under the term loan facility will be used for the construction and acquisition of solar energy systems.

Interest on the Tranche A borrowings accrues at a floating rate of LIBOR plus 5.5%; provided that if any Tranche B borrowings are incurred, the interest rate increases to a floating rate of LIBOR plus 8.0% for the entire principal amount outstanding. The term loan facility includes customary events of default, conditions to borrowing and covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. These restrictions do not impact the Company's ability to enter into investment funds, including those that are similar to those entered into previously. Additionally, the parties to the term loan facility must maintain certain consolidated and project subsidiary loan-to-value ratios and a consolidated debt service coverage ratio, with such covenants to be tested as of the last day of each fiscal quarter and upon each incurrence of borrowings. Each of the parties to the term loan facility has pledged assets not otherwise pledged under another existing debt facility as collateral to secure their obligations under the term loan facility. Vivint Solar Financing Holdings Parent, LLC, another of the Company's subsidiaries and the parent company of the borrower and certain other of the Company's subsidiaries guarantee the borrower's obligations under the financing agreement.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Internal Control Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015 pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined by Rule 13a-15(f) under the Exchange Act). In assessing the effectiveness of our internal control over financial reporting as of December 31, 2015, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our chief executive officer and chief financial officer concluded that our internal control over financial reporting was not effective as of December 31, 2015 due to the material weakness described below.

Material Weakness

In connection with the preparation, audits and interim reviews of our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness in internal control over financial reporting. Under standards established by the Public Company Accounting Oversight Board of the United States, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We previously reported a material weakness in internal control over financial reporting for the year ended December 31, 2014. This material weakness has not been fully remediated and as a result, for the year ended December 31, 2015, we continued to have deficiencies in our internal controls including those associated with the HLBV method of attributing net income or loss to non-controlling interests and redeemable non-controlling interests and with our financial statement close process.

The nature of our investment funds increases the complexity of our accounting for the allocation of net income (loss) between our stockholders and non-controlling interests under the HLBV method and the calculation of our tax provision. As we enter into additional investment funds, which may have contractual provisions different from those of our existing funds, the calculation under the HLBV method and the calculation of our tax provision could become increasingly complicated. This additional complexity could increase the chance that we experience additional errors in the future, particularly because we have a material weakness in internal controls. In addition, our need to devote our resources to addressing this complexity could delay or prolong our remediation efforts and thereby prolong the existence of the material weakness.

We continue to take steps to remediate the underlying causes of the material weakness that was reported for the year ended December 31, 2014. We have hired a number of additional financial, accounting and tax personnel. In January 2015, we hired a director of internal audit to assist us in implementing and improving our existing internal controls. In February 2015, we hired a chief information officer to assist us in improving our underlying information technology systems and to decrease our reliance on manual processes. We continue to engage third-party consultants to provide support over our accounting and tax processes to assist us with our evaluation of complex technical accounting matters. We continue to engage consultants to advise us on making further improvements to our internal controls over financial reporting. We believe that these additional resources will enable us to broaden the scope and quality of our controls relating to the oversight and review of financial statements and our application of relevant accounting policies. Furthermore, we continue to implement and improve systems to automate certain financial reporting processes and to improve information accuracy. These remediation efforts are still in process and have not yet been completed. Because of this material weakness, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

The actions that we are taking are subject to ongoing senior management review as well as audit committee oversight. We are working diligently on this remediation process; however, we cannot estimate how long it will take to remediate this material weakness. In addition, the remediation steps we have taken, are taking and expect to take may not effectively remediate the material weakness, in which case our internal control over financial reporting would continue to be ineffective. We cannot guarantee that we will be able to complete our remedial actions successfully. Even if we are able to complete these actions successfully, these measures may not adequately address our material weakness. In addition, it is possible that we will discover additional material weaknesses in our internal control over financial reporting or that our existing material weakness will result in additional errors in or restatements of our financial statements.

We will be required to engage an independent registered public accounting firm to opine on the effectiveness of our internal control over financial reporting beginning at the date we are no longer an “emerging growth company” as defined in the JOBS Act. At such time, our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may issue a report that is adverse if such firm is not satisfied with the level at which our controls are documented, designed, operated or reviewed. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weakness in the future. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

Inherent Limitation on the Effectiveness of Internal Control

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 of Form 10-K that is found in our 2015 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for our 2016 Annual Meeting of Stockholders, or the 2015 Proxy Statement, is incorporated by reference to our 2015 Proxy Statement. The 2015 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates.

Item 11. Executive Compensation.

The information required by Item 11 of Form 10-K is found in our 2015 Proxy Statement and is incorporated here by reference to our 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 of Form 10-K is found in our 2015 Proxy Statement and is incorporated here by reference to our 2015 Proxy Statement.

Equity Compensation Plan Information

The following table provides information as of December 31, 2015 with respect to the shares of our common stock that may be issued under existing equity compensation plans (shares in thousands):

Plan Category	A Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	B Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	C Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by security holders	9,277[1]	$ 1.36	15,649[2]
Equity compensation plans not approved by security holders	—	—	—
Total	9,277[1]	$ 1.36	15,649[2]

[1] Consists of awards granted under the 2014 Equity Incentive Plan, the 2013 Omnibus Incentive Plan and an option award granted outside of the Omnibus Plan with terms substantially similar to those granted under the Omnibus Plan.

(2) Represents the number of securities remaining available for future issuance under the 2014 Equity Incentive Plan and the Long-term Incentive Plan. The number of shares available for issuance under the 2014 Plan is subject to an annual increase on the first day of each year beginning in 2015, equal to the least of 8.8 million shares or 4% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year and an amount of shares we determine.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 of Form 10-K is found in our 2015 Proxy Statement and is incorporated here by reference to our 2015 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 of Form 10-K is found in our 2015 Proxy Statement and is incorporated here by reference to our 2015 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1.) Consolidated Financial Statements:

The following documents are filed as a part of this Annual Report on Form 10-K for Vivint Solar, Inc.:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2015 and 2014.

Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Redeemable Non-Controlling Interest and Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013.

Notes to the Consolidated Financial Statements.

(2.) Financial Statement Schedules:

Financial statement schedules are omitted because they are not required, not applicable or because the required information is shown in the consolidated financial statements or notes thereto.

(3.) Exhibits:

Required exhibits are incorporated by reference or are filed with this Annual Report as set forth in the following Exhibit Index, which immediately precedes such exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vivint Solar, Inc.

Date: March 14, 2016 By: /s/ Gregory S. Butterfield
Gregory S. Butterfield
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Gregory S. Butterfield Gregory S. Butterfield	Chief Executive Officer and President, Director (Principal Executive Officer)	March 14, 2016
/s/ Dana C. Russell Dana C. Russell	Chief Financial Officer and Executive Vice President (Principal Accounting and Financial Officer)	March 14, 2016
/s/ David F. D'Alessandro David F. D'Alessandro	Director	March 14, 2016
/s/ Alex J. Dunn Alex J. Dunn	Director	March 14, 2016
/s/ Bruce McEvoy Bruce McEvoy	Director	March 14, 2016
/s/ Jay D. Pauley Jay D. Pauley	Director	March 14, 2016
/s/ Todd R. Pedersen Todd R. Pedersen	Director	March 14, 2016
/s/ Joseph S. Tibbetts, Jr. Joseph S. Tibbetts, Jr.	Director	March 14, 2016
/s/ Peter F. Wallace Peter F. Wallace	Director	March 14, 2016

114

Exhibit Index

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
2.1	Agreement and Plan of Merger, dated as of July 20, 2015, by and among SunEdison, Inc., SEV Merger Sub Inc. and Vivint Solar, Inc.	8-K	001-36642	2.1	July 22, 2015
2.2	Amendment to the Agreement and Plan of Merger, dated as of December 9, 2015, by and among SunEdison, Inc., SEV Merger Sub Inc. and Vivint Solar, Inc.	8-K	001-36642	2.1	December 9, 2015
3.1	Amended and Restated Certificate of Incorporation of the Company	10-Q	001-36642	3.1	November 12, 2014
3.2	Amended and Restated Bylaws of the Company	10-Q	001-36642	3.2	November 12, 2014
4.1	Registration Rights Agreement by and among the Company and the investors named therein, dated October 6, 2014	10-K	001-36642	4.1	March 13, 2015
10.1+	Form of Director and Executive Officer Indemnification Agreement	S-1	333-198372	10.1	August 26, 2014
10.2+	2013 Omnibus Incentive Plan, as amended	S-1	333-198372	10.2	August 26, 2014
10.3	Form of Stock Option Agreement under the 2013 Omnibus Incentive Plan	10-Q	001-36642	10.17	November 12, 2014
10.4+	2014 Equity Incentive Plan	S-1/A	333-198372	10.3	September 18, 2014
10.5	Form of Notice of Stock Option Grant and Stock Option Agreement under the 2014 Equity Incentive Plan	10-Q	001-36642	10.15	November 12, 2014
10.6	Form of Notice of Restricted Stock Unit Grant and Restricted Stock Unit Agreement under the 2014 Equity Incentive Plan	10-Q	001-36642	10.16	November 12, 2014
10.7+	Amended and Restated 2013 Long-Term Incentive Pool Plan for District Sales Managers, and forms of agreements thereunder	S-1	333-198372	10.4A	August 26, 2014
10.8+	Amended and Restated 2013 Long-Term Incentive Pool Plan for Operations Leaders, and forms of agreements thereunder	S-1	333-198372	10.4B	August 26, 2014
10.9+	Amended and Restated 2013 Long-Term Incentive Pool Plan for Recruiting Regional Sales Managers, and forms of agreements thereunder	10-K	001-36642	10.9	March 13, 2015
10.10+	Amended and Restated 2013 Long-Term Incentive Pool Plan for Regional Managers (Technicians), and forms of agreements thereunder	S-1	333-198372	10.4D	August 26, 2014

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.11+	Amended and Restated 2013 Long-Term Incentive Pool Plan for Regional Sales Managers, and forms of agreements thereunder	S-1	333-198372	10.4E	August 26, 2014
10.12+	Amended and Restated 2013 Long-Term Incentive Pool Plan for Sales Managers, and forms of agreements thereunder	S-1	333-198372	10.4F	August 26, 2014
10.13+	Form of 313 Acquisition LLC Unit Plan	S-1/A	333-198372	10.5	September 18, 2014
10.14+	Executive Incentive Compensation Plan, and forms of agreements thereunder	S-1	333-198372	10.6	August 26, 2014
10.15+	Form of Involuntary Termination Protection Agreement between the Company and certain of its officers	S-1	333-198372	10.7	August 26, 2014
10.16+	Letter Agreement, dated August 28, 2014, with Gregory S. Butterfield	S-1/A	333-198372	10.8	September 18, 2014
10.17+	Letter Agreement, dated August 28, 2014, with Dana C. Russell	10-K	001-36642	10.17	March 13, 2015
10.18+	Letter Agreement, dated August 28, 2014, with Shawn J. Lindquist	10-K	001-36642	10.18	March 13, 2015
10.19	Subordinated Note and Loan Agreement between the Company and APX Group, Inc., dated December 27, 2012	S-1	333-198372	10.11	August 26, 2014
10.20	First Amendment to Note and Loan Agreement between the Company and APX Group, Inc., dated July 26, 2013	S-1	333-198372	10.11A	August 26, 2014
10.21	Amended and Restated Subordinated Note and Loan Agreement between the Company and APX Parent Holdco, Inc., dated January 20, 2014	S-1	333-198372	10.12	August 26, 2014
10.22	First Amendment to Amended and Restated Subordinated Note and Loan Agreement between the Company and APX Parent Holdco, Inc., dated April 25, 2014	S-1	333-198372	10.12A	August 26, 2014
10.23†	Credit Agreement between the Company, as a guarantor, Vivint Solar Holdings, Inc., as the borrower, and Bank of America, N.A. as administrative agent, collateral agent and lender, dated May 1, 2014	S-1	333-198372	10.13	August 26, 2014

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.24†	Credit Agreement among Vivint Solar, Inc., as Borrower, Goldman Sachs Lending Partners LLC, as Administrative Agent and Collateral Agent, and Goldman Sachs Lending Partners LLC, Credit Suisse Securities (USA) LLC, Barclays Bank plc, Citibank, N.A. and Morgan Stanley Senior Funding, Inc., as Joint Lead Arrangers and Joint Bookrunners, dated March 3, 2015	10-Q	001-36642	10.1	May 14, 2015
10.25	Stockholders Agreement by and among the Company and other parties thereto, dated October 6, 2014	10-K	001-36642	10.24	March 13, 2015
10.26	Master Intercompany Framework Agreement between the Company and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.1	November 12, 2014
10.27	Transition Services Agreement between the Company and Vivint, Inc., September 30, 2014	10-Q	001-36642	10.2	November 12, 2014
10.28	Non-Competition Agreement between the Company and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.3	November 12, 2014
10.29	Product Development and Supply Agreement between Vivint Solar Developer, LLC and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.4	November 12, 2014
10.30	Marketing and Customer Relations Agreement between Vivint Solar Developer, LLC and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.5	November 12, 2014
10.31	Trademark Assignment Agreement between Vivint Solar Licensing LLC and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.6	November 12, 2014
10.32	Trademark Assignment Agreement between the Company and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.7	November 12, 2014
10.33	Termination Agreement (Turnkey Full-Service Sublease Agreement) between Vivint Solar Holdings, Inc., and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.8	November 12, 2014
10.34	Bill of Sale and Assignment between the Company and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.9	November 12, 2014
10.35	Limited Liability Company Agreement of Vivint Solar Licensing, LLC, between the Company and Vivint, Inc., dated September 30, 2014	10-Q	001-36642	10.10	November 12, 2014

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.36	Trademark License Agreement between the Company and Vivint Solar Licensing, LLC, dated September 30, 2014	10-Q	001-36642	10.11	November 12, 2014
10.37	Engagement Letter between the Company and Blackstone Advisory Partners L.P. dated as of May 30, 2014	S-1	333-198372	10.25	August 26, 2014
10.38	Lease Agreement between the Company and Thanksgiving Park Five, LLC dated as of May 5, 2014	S-1	333-198372	10.26	August 26, 2014
10.39	Sublease Agreement between the Company, Thanksgiving Park LLC and Durham Jones & Pinegar, P.C., dated as of May 19, 2014	S-1	333-198372	10.27	August 26, 2014
10.40	Canyon Park Technology Center Office Building Lease Agreement between the Company and TCU-Canyon Park, LLC	S-1	333-198372	10.28	August 26, 2014
10.41†	Limited Liability Company Agreement of Vivint Solar Mia Project Company, LLC, between Vivint Solar Mia Manager, LLC and Blackstone Holdings Finance Co. L.L.C., dated as of July 16, 2013	S-1/A	333-198372	10.29	September 18, 2014
10.42†	First Amendment to the Limited Liability Company Agreement of Vivint Solar Mia Project Company, LLC, between Vivint Solar Mia Manager, LLC and Blackstone Holdings Finance Co. L.L.C., dated as of September 12, 2013	S-1/A	333-198372	10.29A	September 18, 2014
10.43	Second Amendment to Limited Liability Company Agreement of Vivint Solar Mia Project Company, LLC, between Vivint Solar Mia Manager, LLC and Blackstone Holdings Finance Co. L.L.C., dated as of August 31, 2013	S-1	333-198372	10.29B	September 18, 2014
10.44†	Third Amendment to Limited Liability Company Agreement of Vivint Solar Mia Project Company, LLC between Vivint Solar Mia Manager, LLC and Blackstone Holdings I, L.P., dated April 15, 2015	10-Q	001-36642	10.2	May 14, 2015
10.45†	Development, EPC and Purchase Agreement by and among, Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Mia Project Company, LLC, dated as of July 16, 2013	S-1/A	333-198372	10.30	September 18, 2014

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.46	First Amendment to Development, EPC and Purchase Agreement by and among Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Mia Project Company, LLC, dated as of January 13, 2014	S-1/A	333-198372	10.30A	September 18, 2014
10.47	Second Amendment to Development, EPC and Purchase Agreement by and among, Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Mia Project Company, LLC dated as of April 25, 2014	S-1/A	333-198372	10.30B	September 18, 2014
10.48	Third Amendment to Development, EPC and Purchase Agreement, between Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc. and Vivint Solar Mia Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.4	May 14, 2015
10.49	Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Mia Project Company, LLC, dated as of July 16, 2013	S-1/A	333-198372	10.31	September 18, 2014
10.50	First Amendment to Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Mia Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.3	May 14, 2015
10.51	Guaranty by the Company in favor of Blackstone Holdings Finance Co. L.L.C. and Vivint Solar Mia Project Company, LLC, dated as of July 16, 2013	S-1	333-198372	10.32	September 18, 2014
10.52†	Limited Liability Company Agreement of Vivint Solar Aaliyah Project Company, LLC, between Vivint Solar Aaliyah Manager, LLC and Stoneco IV Corporation, dated as of November 5, 2013	S-1/A	333-198372	10.33	September 18, 2014
10.53†	First Amendment to Limited Liability Company Agreement of Vivint Solar Aaliyah Project Company, LLC, between Vivint Solar Aaliyah Manager, LLC and Stoneco IV Corporation, dated as of January 13, 2014	S-1/A	333-198372	10.33A	September 18, 2014
10.54	Second Amendment to Limited Liability Company Agreement of Vivint Solar Aaliyah Project Company, LLC between Vivint Solar Aaliyah Manager, LLC and Stoneco IV Corporation, dated April 15, 2015	10-Q	001-36642	10.5	May 14, 2015

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.55†	Development, EPC and Purchase Agreement by and among Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Aaliyah Project Company, LLC, dated as of November 5, 2013	S-1/A	333-198372	10.34	September 18, 2014
10.56	First Amendment to Development, EPC and Purchase Agreement by and among, Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Aaliyah Project Company, LLC, dated as of January 13, 2014	S-1/A	333-198372	10.34A	September 18, 2014
10.57†	Second Amendment to Development, EPC and Purchase Agreement by and among Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Aaliyah Project Company, LLC, dated as of February 13, 2014	S-1/A	333-198372	10.34B	September 18, 2014
10.58	Third Amendment to Development, EPC and Purchase Agreement, between Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc. and Vivint Solar Aaliyah Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.7	May 14, 2015
10.59	Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Aaliyah Project Company, LLC, dated as of November 5, 2013	S-1/A	333-198372	10.35	September 18, 2014
10.60	First Amendment to Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Aaliyah Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.6	May 14, 2015
10.61	Guaranty by Vivint Solar, Inc. in favor of Stoneco IV Corporation, LLC and Vivint Solar Aaliyah Project Company, LLC, dated November 5, 2013	S-1	333-198372	10.36	September 18, 2014
10.62†	Limited Liability Company Agreement of Vivint Solar Rebecca Project Company, LLC between Vivint Solar Rebecca Manager, LLC and Blackstone Holdings I L.P., dated as of February 13, 2014	S-1/A	333-198372	10.37	September 18, 2014
10.63	First Amendment to Limited Liability Company Agreement of Vivint Solar Rebecca Project Company, LLC between Vivint Solar Rebecca Manager, LLC and Blackstone Holdings I, L.P., dated April 15, 2015\	10-Q	001-36642	10.8	May 14, 2015

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.64†	Development, EPC and Purchase Agreement by and among Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc., and Vivint Solar Rebecca Project Company, LLC, dated as of February 13, 2014	S-1/A	333-198372	10.38	September 18, 2014
10.65	First Amendment to Development, EPC and Purchase Agreement, between Vivint Solar Developer, LLC, Vivint Solar Holdings, Inc. and Vivint Solar Rebecca Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.10	May 14, 2015
10.66	Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Rebecca Project Company, LLC, dated as of February 13, 2014	S-1/A	333-198372	10.39	September 18, 2014
10.67	First Amendment to Maintenance Services Agreement between Vivint Solar Provider, LLC and Vivint Solar Rebecca Project Company, LLC, dated April 15, 2015	10-Q	001-36642	10.9	May 14, 2015
10.68	Guaranty by Vivint Solar, Inc. in favor of Blackstone Holdings I L.P. and Vivint Solar Rebecca Project Company, LLC, dated as of February 13, 2014	S-1	333-198372	10.40	September 18, 2014
10.69	Subscription Agreement between the Company and 313 Acquisition LLC, dated August 14, 2014	S-1	333-198372	10.41	September 18, 2014
10.70	Subscription Agreement between the Company and the investors named therein, dated September 3, 2014	S-1/A	333-198372	10.43	September 18, 2014
10.71†*	Loan Agreement, among Vivint Solar Financing I, LLC, Bank of America, N.A. and the parties named therein, dated as of September 12, 2014				
10.72†	Collateral Agency and Depositary Agreement among Vivint Solar Financing I, LLC, Bank of America, N.A. and the parties named therein, dated as of September 12, 2014	S-1/A	333-198372	10.45	September 18, 2014
10.73†	Pledge and Security Agreement among Vivint Solar Financing I, LLC, Bank of America, N.A. and the parties named therein, dated as of September 12, 2014	S-1/A	333-198372	10.46	September 18, 2014
10.74	Lease Termination Agreement between the Company and Thanksgiving Park Five, LLC, dated September 15, 2014	S-1/A	333-198372	10.47	September 18, 2014

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
10.75	Lease Agreement between the Company and T-Stat One, LLC, dated August 12, 2014	S-1/A	333-198372	10.48	September 18, 2014
10.76	Amended and Restated Voting Agreement, dated as of December 9, 2015, by and among SunEdison, Inc., SEV Merger Sub Inc. and 313 Acquisition LLC	8-K	001-36642	10.1	December 9, 2015
10.77	Lock-Up Agreement, dated as of July 20, 2015, by 313 Acquisition LLC	8-K	001-36642	10.2	July 22, 2015
10.78	Letter Agreement, dated as of July 20, 2015, between SunEdison, Inc., Vivint, Inc. and Vivint Solar, Inc.	8-K	001-36642	10.3	July 22, 2015
10.79	Letter Agreement, dated as of July 19, 2015, between Gregory S. Butterfield and Vivint Solar, Inc.	10-Q	001-36642	10.4	November 16, 2015
10.80	Letter Agreement, dated as of July 19, 2015, between Dana Russell and Vivint Solar, Inc.	10-Q	001-36642	10.4	November 16, 2015
21.1*	List of subsidiaries of the Company				
23.1*	Consent of Ernst & Young LLP				
24.1*	Powers of Attorney (contained on signature page).				
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				

Exhibit Number	Description	Form	File No.	Incorporated by Reference	Filing Date
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

Legend:

+ Indicates a management contract or compensatory plan.

† Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

* Filed herewith.