UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

☐ **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 Number)**

1800 West Ashton Blvd.
Lehi, Utah 84043
(Address of principal executive offices) (Zip Code)

(877) 404-4129
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a small reporting company)	Small reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of November 1, 2017, 114,762,517 shares of the registrant's common stock were outstanding.

Vivint Solar, Inc.

Quarterly Report on Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Vivint Solar, Inc.

Condensed Consolidated Balance Sheets
(In thousands, except par value and footnote 1)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 101,755	$ 96,586
Accounts receivable, net	29,517	12,658
Inventories	19,802	11,285
Prepaid expenses and other current assets	29,519	46,683
Total current assets	180,593	167,212
Restricted cash and cash equivalents	45,593	26,853
Solar energy systems, net	1,622,561	1,458,355
Property and equipment, net	17,040	23,199
Intangible assets, net	1,002	1,420
Prepaid tax asset, net	482,446	419,474
Other non-current assets, net	36,889	29,843
TOTAL ASSETS (1)	$ 2,386,124	$ 2,126,356
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY		
Current liabilities:		
Accounts payable	$ 42,315	$ 46,630
Accounts payable—related party	476	191
Distributions payable to non-controlling interests and redeemable non-controlling interests	11,664	16,176
Accrued compensation	23,199	20,003
Current portion of long-term debt	13,454	6,252
Current portion of deferred revenue	32,283	19,911
Current portion of capital lease obligation	4,571	5,163
Accrued and other current liabilities	25,044	19,364
Total current liabilities	153,006	133,690
Long-term debt, net of current portion	882,672	750,728
Deferred revenue, net of current portion	33,680	34,379
Capital lease obligation, net of current portion	2,294	5,476
Deferred tax liability, net	491,834	395,218
Other non-current liabilities	13,999	10,355
Total liabilities (1)	1,577,485	1,329,846
Commitments and contingencies (Note 17)		
Redeemable non-controlling interests	127,833	129,676
Stockholders' equity:		
Common stock, $0.01 par value—1,000,000 authorized, 114,763 shares issued and outstanding as of September 30, 2017; 1,000,000 authorized, 110,245 shares issued and outstanding as of December 31, 2016	1,148	1,102
Additional paid-in capital	554,420	542,348
Accumulated other comprehensive income	6,027	7,631
Retained earnings	29,186	5,217
Total stockholders' equity	590,781	556,298
Non-controlling interests	90,025	110,536
Total equity	680,806	666,834
TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY	$ 2,386,124	$ 2,126,356

(1) The Company's assets as of September 30, 2017 and December 31, 2016 include $1,479.2 million and $1,303.5 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 $1,434.7 million and $1,273.8 million as of September 30, 2017 and December 31, 2016; cash and cash equivalents of $28.0 million and $23.2 million as of September 30, 2017 and December 31, 2016; accounts receivable, net, of $9.6 million and $4.0 million as of September 30, 2017 and December 31, 2016; other non-current assets, net of $5.8 million and $1.8 million as of September 30, 2017 and December 31, 2016; and prepaid expenses and other current assets of $1.2 million and $0.8 million as of September 30, 2017 and December 31, 2016. The Company's liabilities as of September 30, 2017 and December 31, 2016 included $55.3 million and $64.2 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 $11.7 million and $16.2 million as of September 30, 2017 and December 31, 2016; deferred revenue of $37.7 million and $41.7 million as of September 30, 2017 and December 31, 2016; accrued and other current liabilities of $4.5 million as of September 30, 2017 and December 31, 2016; and other non-current liabilities of $1.5 million and $1.9 million as of September 30, 2017 and December 31, 2016. For further information see Note 12—Investment Funds.

See accompanying notes to condensed consolidated financial statements

Vivint Solar, Inc.

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Operating leases and incentives	$ 45,909	$ 33,394	$ 119,711	$ 80,033
Solar energy system and product sales	29,230	7,868	81,537	13,363
Total revenue	75,139	41,262	201,248	93,396
Operating expenses:				
Cost of revenue—operating leases and incentives	34,731	39,268	103,564	115,566
Cost of revenue—solar energy system and product sales	22,168	6,468	63,664	10,606
Sales and marketing	9,808	8,617	28,037	32,078
Research and development	896	842	2,687	2,218
General and administrative	19,379	19,022	60,259	60,006
Amortization of intangible assets	139	342	418	762
Impairment of goodwill	—	—	—	36,601
Total operating expenses	87,121	74,559	258,629	257,837
Loss from operations	(11,982)	(33,297)	(57,381)	(164,441)
Interest expense	16,148	9,361	47,707	22,539
Other expense (income), net	195	(434)	1,186	(95)
Loss before income taxes	(28,325)	(42,224)	(106,274)	(186,885)
Income tax expense (benefit)	9,375	(2,959)	23,932	10,245
Net loss	(37,700)	(39,265)	(130,206)	(197,130)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(44,605)	(55,961)	(155,383)	(194,978)
Net income available (loss attributable) to common stockholders	$ 6,905	$ 16,696	$ 25,177	$ (2,152)
Net income available (loss attributable) per share to common stockholders:				
Basic	$ 0.06	$ 0.15	$ 0.22	$ (0.02)
Diluted	$ 0.06	$ 0.15	$ 0.21	$ (0.02)
Weighted-average shares used in computing net income available (loss attributable) per share to common stockholders:				
Basic	114,505	108,692	112,554	107,516
Diluted	119,465	113,344	117,825	107,516

See accompanying notes to condensed consolidated financial statements.

Vivint Solar, Inc.

Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income available (loss attributable) to common stockholders	$ 6,905	$ 16,696	$ 25,177	$ (2,152)
Other comprehensive (loss) income:				
Unrealized losses on cash flow hedging instruments (net of tax effect of $(331), $286, $(1,076) and $286)	(497)	429	(1,612)	429
Less: Interest expense on derivatives recognized into earnings (net of tax effect of $62, $0, $5, and $0)	94	—	8	—
Total other comprehensive (loss) income	(403)	429	(1,604)	429
Comprehensive income (loss)	$ 6,502	$ 17,125	$ 23,573	$ (1,723)

See accompanying notes to condensed consolidated financial statements.

Vivint Solar, Inc.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (130,206)	$ (197,130)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	44,671	32,376
Amortization of intangible assets	418	762
Impairment of goodwill	—	36,601
Deferred income taxes	98,493	124,912
Stock-based compensation	9,501	6,145
Loss on solar energy systems and property and equipment	5,024	4,576
Non-cash interest and other expense	7,355	4,963
Reduction in lease pass-through financing obligation	(3,545)	(3,279)
Losses (gains) on interest rate swaps	1,193	(258)
Excess tax detriment from stock-based compensation	—	(1,280)
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,859)	(8,444)
Inventories	(8,517)	(5,891)
Prepaid expenses and other current assets	16,289	98
Prepaid tax asset, net	(62,972)	(122,313)
Other non-current assets, net	(5,921)	(4,255)
Accounts payable	874	664
Accounts payable—related party	120	(1,480)
Accrued compensation	1,500	8,334
Deferred revenue	11,673	3,396
Accrued and other liabilities	6,235	(2,377)
Net cash used in operating activities	(24,674)	(123,880)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the cost of solar energy systems	(211,225)	(318,273)
Payments for property and equipment	(672)	(2,697)
Proceeds from disposals of solar energy systems and property and equipment	1,952	693
Change in restricted cash and cash equivalents	(18,740)	(8,434)
Proceeds from state tax credits	2,216	—
Purchase of intangible assets	—	(291)
Net cash used in investing activities	(226,469)	(329,002)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from investment by non-controlling interests and redeemable non-controlling interests	162,291	237,148
Distributions paid to non-controlling interests and redeemable non-controlling interests	(33,774)	(22,230)
Proceeds from long-term debt	306,750	500,257
Payments on long-term debt	(164,935)	(224,400)
Payments for debt issuance and deferred offering costs	(13,677)	(16,774)
Proceeds from lease pass-through financing obligation	2,467	1,417
Principal payments on capital lease obligations	(3,413)	(4,357)
Proceeds from issuance of common stock	603	2,645
Net cash provided by financing activities	256,312	473,706
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,169	20,824
CASH AND CASH EQUIVALENTS—Beginning of period	96,586	92,213
CASH AND CASH EQUIVALENTS—End of period	$ 101,755	$ 113,037
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrued distributions to non-controlling interests and redeemable non-controlling interests	$ (4,512)	$ 5,092
Change in fair value of interest rate swaps	$ (3,868)	$ 973
Costs of solar energy systems included in changes in accounts payable, accounts payable—related party, accrued compensation and accrued and other liabilities	$ (1,901)	$ 503
Vehicles acquired under capital leases	$ 715	$ 1,868
Receivable for state tax credits recorded as a reduction to solar energy system costs	$ 82	$ 1,364
Sale-leaseback of property under build-to-suit agreements	$ —	$ (28,456)
Costs of lessor-financed tenant improvements	$ —	$ 7,850
Property acquired under build-to-suit agreements	$ —	$ 2,896

See accompanying notes to condensed consolidated financial statements.

1 . Organization

Vivint Solar, Inc. and its subsidiaries are collectively referred to as the "Company." The Company primarily offers solar energy to residential customers through long-term customer contracts, such as power purchase agreements ("PPAs") and legal-form leases ("Solar Leases"). The Company also offers its customers the option to purchase solar energy systems ("System Sales") through third-party loan offerings or a cash purchase. The Company enters into customer contracts primarily through a sales organization that uses a direct-to-home sales model. The long-term customer contracts under PPAs and Solar Leases are typically for 20 years and require the customer to make monthly payments to the Company.

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 cash generated from operations, including System Sales, to finance a portion of the Company's variable and fixed costs associated with installing solar energy systems.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K dated as of March 16, 2017. The unaudited condensed consolidated financial statements were prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments (all of which were considered of normal recurring nature) considered necessary to present fairly the Company's financial results. The results of the nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2017 or for any other interim period or other future year.

The unaudited condensed consolidated financial statements reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company uses a qualitative approach in assessing the consolidation requirement for variable interest entities ("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. All of these determinations involve significant management judgments and estimates. 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, see Note 12—Investment Funds.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company regularly makes significant estimates and assumptions including, but not limited to, estimates that affect the Company's principles of consolidation; U.S. federal investment tax credits ("ITCs"); revenue recognition; solar energy systems, net; the impairment analysis of long-lived assets; stock-based compensation; the provision for income taxes; the valuation of derivative financial instruments; the recognition and measurement of loss contingencies; 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.

Stock-Based Compensation

Effective January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, which simplifies several aspects of the accounting for share-based payment transactions. The resulting changes were as follows:

- All excess tax benefits and tax deficiencies resulting from stock-based compensation are now recognized as income tax expense or benefit in the condensed consolidated income statements, and excess tax benefits are now recognized regardless of whether the benefit reduces taxes payable in the current period;
- Excess tax benefits are now classified along with other tax cash flows as an operating activity on the condensed consolidated statements of cash flows;
- The Company elected to recognize forfeitures as they occur beginning on January 1, 2017;
- The Company may withhold up to the maximum statutory tax rate for each employee without triggering liability accounting; and
- Cash paid by the Company when directly withholding shares for tax withholding purposes is now classified as a financing activity on the condensed consolidated statements of cash flows.

Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements and forfeitures were adopted using a modified retrospective transition method by means of a cumulative-effect adjustment, resulting in a net $1.2 million reduction to retained earnings as of January 1, 2017.

Amendments related to the presentation of employee taxes paid on the statements of cash flows when an employer withholds shares for tax withholding purposes was adopted using the retrospective method, but had no impact on prior periods.

Amendments related to the recognition of excess tax benefits and tax deficiencies in the condensed consolidated income statements and the presentation of excess tax benefits on the condensed consolidated statements of cash flows were adopted prospectively. No prior periods were adjusted.

In the second quarter of 2017, the Company adopted ASU 2017-09, which clarifies when changes to equity awards require the use of modification accounting guidance. This update clarifies that if the fair value, vesting conditions and classification of an award remain the same after modification, then modification accounting is not required. This guidance was adopted prospectively and no prior periods were adjusted. The adoption of this ASU had no material effect on the condensed consolidated financial statements.

Inventory

Effective January 1, 2017, the Company adopted ASU 2015-11, which simplifies the measurement of inventory by changing the measurement principle for inventories valued under the first-in, first-out ("FIFO") or weighted-average methods from the lower of cost or market to the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this ASU prospectively and no prior periods were adjusted. The adoption of this ASU had no material effect on the condensed consolidated financial statements.

Liquidity

In order to grow, the Company requires cash to finance the deployment of solar energy systems. As of the date of this filing, the Company will require additional sources of cash beyond current cash balances, and currently available financing facilities to fund long-term planned growth. If the Company is unable to secure additional financing when needed, or upon desirable terms, the Company may be unable to finance installation of customers' systems in a manner consistent with past performance, cost of capital could increase, or the Company may be required to significantly reduce the scope of operations, any of which would have a material adverse effect on its business, financial condition, results of operations and prospects. While the Company believes additional financing is available and will continue to be available to support current levels of operations, the Company believes it has the ability and intent to reduce operations to the level of available financial resources for at least the next 12 months from the date of this report, if necessary.

Recent Accounting Pronouncements

New Revenue Guidance

From March 2016 through December 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-20, ASU 2016-12, ASU 2016-11, ASU 2016-10 and ASU 2016-08. These updates all clarify aspects of the guidance in ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which represents comprehensive reform to revenue recognition principles related to customer contracts . The effective date of these updates for the Company is January 1, 2018. Adoption of this ASU is either full retrospective to each prior period presented or retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently considering adopting the standard using the full retrospective method, but no final decision has been made. The Company continues to evaluate the impact of the new standard on its accounting policies, processes and system requirements.

Under the current accounting guidance, the Company accounts for PPAs and Solar Leases as operating leases. The Company has determined that these agreements do not meet the definition of a lease under ASC 842, *Leases,* and will be accounted for in accordance with Topic 606. The Company is still evaluating the impact of Topic 606 with respect to the PPA revenue stream. The Company currently accounts for certain Solar Leases, rebates and incentives as minimum lease payments under ASC 840, *Leases.* For the Company's Solar Leases, the Company has preliminarily concluded that the impact of adopting Topic 606 will be immaterial. Revenue from all of the Company's Solar Leases will now be recognized on a straight-line basis over the contractual term; currently a significant majority of Solar Leases are recognized on a straight-line basis. The Company has also preliminarily concluded that there will be no change related to revenue recognition for rebates and incentives.

The Company has evaluated the accounting for incremental costs of obtaining a contract, which under current accounting policies are capitalized as initial direct costs and amortized over the lease term. The Company has preliminarily concluded that it will continue to capitalize the costs of obtaining a PPA, Solar Lease or System Sale contract, which are primarily comprised of sales commissions. For PPA and Solar Lease contracts, the amortization period will remain the life of the related contract, which is 20 years. For System Sales, the capitalized costs of obtaining a contract will continue to be recognized when the related solar energy system is interconnected to the local power grid and granted permission to operate. This will result in minimal changes to the Company's condensed consolidated financial statements.

The Company has analyzed the impact of Topic 606 on System Sales, photovoltaic installation and software products, and has preliminarily concluded that it will not have a material impact on the condensed consolidated financial statements.

The Company has assessed the impact of Topic 606 as it relates to the sales of ITCs through its lease pass-through fund arrangement. The Company has preliminarily concluded that revenue related to the sale of ITCs through its lease pass-through arrangement will be recognized when the related solar energy systems are placed in service. Currently, the Company recognizes this revenue evenly over the five-year ITC recapture period. This earlier recognition of the ITC lease pass-through revenue is anticipated to be material to fiscal 2016 and could increase the revenue recognized in fiscal 2016 by approximately $12 million and will reduce revenue in fiscal 2017 by approximately $5 million.

New Lease Guidance

In February 2016, 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 are required to be applied using a modified retrospective approach. Due to the Company's determination that its PPAs and Solar Leases do not meet the definition of a lease pursuant to ASC 842, *Leases* , the Company is currently considering early adopting ASC 842 to coincide with the adoption of ASC 606, however a decision to early adopt is not final. The Company has operating leases that will be affected by this update and the Company is still evaluating the full impact on its condensed consolidated financial statements and related disclosures. The impact is not expected to be significant to the Company's condensed consolidated financial statements.

Other Recent Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* This update makes targeted improvements to accounting for hedge activities by easing certain documentation and assessment requirements and eliminating the requirement to separately measure and report hedge ineffectiveness. This update is effective for annual periods beginning after December 15, 2018 for public business entities and early adoption is permitted. The amendments in this update should be applied using a modified retrospective transition method by recording a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating this update but currently does not anticipate it will have a material impact on its condensed consolidated financial statements and related disclosures. The Company plans to early adopt the new standard effective January 1, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).* This update clarifies that transfers between cash and restricted cash are not part of the entity's operating, investing and financing activities, and details of those transfers are not reported as cash flow activities in the statements of cash flows. This update is effective for annual periods beginning after December 15, 2017 for public business entities. The amendments in this update should be applied using the retrospective transition method. The Company is evaluating this update but currently anticipates it will have a material impact on its condensed consolidated financial statements and related disclosures as changes in restricted cash will no longer be presented as cash flows from investing activities.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This update will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This update is effective for annual periods beginning after December 15, 2017 for public business entities. The amendments in this update should be applied using a modified retrospective approach. The Company has evaluated this update and currently anticipates it will have a material impact on its condensed consolidated financial statements and related disclosures as the Company will no longer record prepaid tax assets on the condensed consolidated balance sheets and will record the income tax consequences of intra-entity transfers through income tax expense on the condensed consolidated statements of operations. As of September 30, 2017, the prepaid tax asset, net is $482.4 million and it is anticipated that the vast majority of this amount will be written off to retained earnings upon adoption. Once adopted, the ongoing income tax impacts of these intra-entity transfers will be reported as income tax expense.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This update clarifies how certain cash flows should be classified with the objective of reducing the existing diversity in practice. This update is effective for annual periods beginning after December 15, 2017 for public business entities. The amendments in this update should be applied using a retrospective transition method and must all be applied in the same period. The Company is evaluating the impact of this update on its condensed 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 and liabilities measured on a recurring basis by level within the fair value hierarchy (in thousands):

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Interest rate swaps	$ —	$ 12,283	$ —	$ 12,283
Financial Liabilities				
Interest rate swaps	$ —	$ 1,834	$ —	$ 1,834

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Interest rate swaps	$ —	$ 14,317	$ —	$ 14,317
Time deposits	—	100	—	100
Total financial assets	$ —	$ 14,417	$ —	$ 14,417

The i nterest rate swaps (Level 2) were valued using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the interest rate swap cou nterparties and the Company. The valuation model uses various observable inputs including contractual terms, interest rate curves, credit spreads and measures of volatility. Time deposits (Level 2) 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 did not realize gains or losses related to financial assets for any of the periods presented.

The carrying values and fair values of the Company's long-term debt were as follows (in thousands):

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Floating-rate long-term debt	$ 710,918	$ 710,918	$ 771,852	$ 771,852
Fixed-rate long-term debt	202,749	241,314	—	—
Total	$ 913,667	$ 952,232	$ 771,852	$ 771,852

The Company's outstanding principal balance of long-term debt is carried at cost. The Company estimated the fair values of its floating-rate debt facilities to approximate their carrying values as interest accrues at floating rates based on market rates. The Company's fixed-rate debt facilities (Level 2) were valued using quoted prices for corporate debt with similar terms.

4. Inventories

Inventories consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Solar energy systems held for sale	$ 19,097	$ 10,540
Photovoltaic installation devices and software products	705	745
Total inventories	$ 19,802	$ 11,285

Solar energy systems held for sale 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 FIFO basis, or net realizable value. Photovoltaic installation devices and software products are stated at the lower of cost, on an average cost basis, or net realizable value.

5 . Solar Energy Systems

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

	September 30, 2017	December 31, 2016
System equipment costs	$ 1,392,886	$ 1,238,968
Initial direct costs related to solar energy systems	318,658	261,318
	1,711,544	1,500,286
Less: Accumulated depreciation and amortization	(114,728)	(73,793)
	1,596,816	1,426,493
Solar energy system inventory	25,745	31,862
Solar energy systems, net	$ 1,622,561	$ 1,458,355

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 $14.5 million and $11.1 million for the three months ended September 30, 2017 and 2016. The Company recorded depreciation and amortization expense related to solar energy systems of $41.0 million and $29.1 million for the nine months ended September 30, 2017 and 2016.

6. Property and Equipment

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

	Estimated Useful Lives	September 30, 2017	December 31, 2016
Vehicles acquired under capital leases	3-5 years	$ 16,029	$ 20,384
Leasehold improvements	1-12 years	15,041	14,694
Furniture and computer and other equipment	3 years	6,501	6,270
		37,571	41,348
Less: Accumulated depreciation and amortization		(20,531)	(18,149)
Property and equipment, net		$ 17,040	$ 23,199

The Company recorded depreciation and amortization related to property and equipment of $1.9 million and $3.0 million for the three months ended September 30, 2017 and 2016 . The Company recorded depreciation and amortization expense related to property and equipment of $6.4 million and $8.2 million for the nine months ended September 30, 2017 and 2016.

The Company leases fleet vehicles that are accounted for as capital leases and are included in property and equipment, net. Of total property and equipment depreciation and amortization, depreciation on vehicles under capital leases of $0.7 million and $1.5 million was capitalized in solar energy systems, net for the three months ended September 30, 2017 and 2016. The Company capitalized depreciation on vehicles under capital leases of $2.7 million and $4.8 million in solar energy systems, net for the nine months ended September 30, 2017 and 2016.

7 . Intangible Assets and Goodwill

Intangible Assets

Intangible assets consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Cost:		
Internal-use software	$ 1,314	$ 1,314
Developed technology	522	522
Trademarks/trade names	201	201
Customer relationships	164	164
Total carrying value	2,201	2,201
Accumulated amortization:		
Internal-use software	(763)	(434)
Developed technology	(241)	(191)
Trademarks/trade names	(74)	(59)
Customer relationships	(121)	(97)
Total accumulated amortization	(1,199)	(781)
Total intangible assets, net	$ 1,002	$ 1,420

The Company recorded amortization expense of $0.1 million and $0.3 million for the three months ended September 30, 2017 and 2016, which was included in amortization of intangible assets. The Company recorded amortization expense of $0.4 million and $0.8 million for the nine months ended September 30, 2017 and 2016.

Goodwill Impairment

The Company's market capitalization decreased significantly during the first quarter of 2016 from $1.0 billion as of December 31, 2015 to $283.0 million as of March 31, 2016 in conjunction with the Company's determination to terminate an agreement and plan of merger with SunEdison, Inc. ("SunEdison") and SEV Merger Sub Inc. The Company considered this significant decrease in market capitalization to be an indicator of impairment and the Company performed a goodwill impairment test as of March 31, 2016. The impairment test determined that there was no implied value of goodwill, which resulted in an impairment charge of $36.6 million. This charge was recorded in impairment of goodwill for the nine months ended September 30, 2016.

8 . Accrued Compensation

Accrued compensation consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Accrued payroll	$ 14,594	$ 12,558
Accrued commissions	8,605	7,445
Total accrued compensation	$ 23,199	$ 20,003

9 . Accrued and Other Current Liabilities

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

	September 30, 2017	December 31, 2016
Accrued unused commitment fees and interest	$ 7,287	$ 3,827
Current portion of lease pass-through financing obligation	4,910	4,833
Accrued professional fees	4,114	3,222
Sales, use and property taxes payable	2,897	1,785
Accrued inventory	1,695	2,117
Current portion of deferred rent	924	1,155
Other accrued expenses	3,217	2,425
Total accrued and other current liabilities	$ 25,044	$ 19,364

10. Debt Obligations

Debt obligations consisted of the following as of September 30, 2017 (in thousands, except interest rates):

	Principal Borrowings Outstanding	Unamortized Debt Issuance Costs		Net Carrying Value		Unused Borrowing Capacity	Interest Rate	Maturity Date
		Current	Long-term	Current	Long-term			
2017 Term loan facility	$ 201,446	$ (174)	$ (5,088)	$ 6,510	$ 189,674	$ —	6.0%	January 2035
2016 Term loan facility (1)	291,293	(149)	(8,131)	4,969	278,044	—	4.2	August 2021
Subordinated HoldCo facility	198,125	(39)	(3,812)	1,961	192,313	—	9.3	March 2020
Credit agreement	1,303	(2)	(146)	14	1,141	—	6.5	February 2023
Revolving lines of credit (2)								
Aggregation facility (3)	100,000	—	—	—	100,000	275,000	4.5	September 2020
Working capital facility (4)	121,500	—	—	—	121,500	15,000	4.5	March 2020
Total debt	$ 913,667	$ (364)	$ (17,177)	$ 13,454	$ 882,672	$ 290,000		

Debt obligations consisted of the following as of December 31, 2016 (in thousands, except interest rates):

	Principal Borrowings Outstanding	Unamortized Debt Issuance Costs		Net Carrying Value		Unused Borrowing Capacity	Interest Rate	Maturity Date
		Current	Long-term	Current	Long-term			
2016 Term loan facility (1)	$ 297,506	$ (169)	$ (9,643)	$ 4,788	$ 282,906	$ —	3.6%	August 2021
Subordinated HoldCo facility	149,500	(47)	(4,851)	1,453	143,149	50,000	8.6	March 2020
Credit agreement	1,346	(1)	(161)	11	1,173	—	6.5	February 2023
Revolving lines of credit (2)								
Aggregation facility	187,000	—	—	—	187,000	188,000	4.2	March 2018
Working capital facility (4)	136,500	—	—	—	136,500	—	3.9	March 2020
Total debt	$ 771,852	$ (217)	$ (14,655)	$ 6,252	$ 750,728	$ 238,000		

(1) The interest rate of this facility is partially hedged to an effective interest rate of 4.0% for $263.9 million of the principal borrowings. See Note 11—Derivative Financial Instruments.

(2) Revolving lines of credit are not presented net of unamortized debt issuance costs.

(3) The Aggregation facility was amended in March 2017. See the section captioned "—Aggregation Facility."

(4) Facility is recourse debt, which refers to debt that is collateralized by the Company's general assets. All of the Company's other debt obligations are non-recourse, which refers to debt that is only collateralized by specified assets or subsidiaries of the Company.

2017 Term Loan Facility

In January 2017, the Company entered into a long-term fixed rate credit agreement (the "2017 Term Loan Facility") pursuant to which the Company borrowed $203.8 million with certain financial institutions for which Wells Fargo Bank, National Association is acting as administrative agent. The borrower under the 2017 Term Loan Facility is Vivint Solar Financing III, LLC, a wholly owned indirect subsidiary of the Company. Proceeds of the 2017 Term Loan Facility were used to (1) repay existing indebtedness of $140.3 million under the Aggregation Facility with respect to the portfolio of projects being used as collateral for the 2017 Term Loan Facility (the "2017 Term Loan Portfolio"), (2) fund a debt service reserve account and other agreed reserves of $20.1 million, (3) pay transaction costs and fees in connection with the 2017 Term Loan Facility of $5.5 million, (4) pay the ITC insurance premium of $2.0 million on behalf of one of the Company's investment funds, and (5) distribute $35.9 million to the Company as reimbursement for capital costs associated with deployment of the 2017 Term Loan Portfolio.

Interest on borrowings accrues at an annual fixed rate equal to 6.0% and is payable in arrears. Certain principal payments are due on a quarterly basis, subject to the occurrence of certain events. The Company's first principal and interest payment was made in April 2017. Principal and interest payable under the 2017 Term Loan Facility will be paid over the term of the loan until the final maturity date of January 5, 2035. Optional prepayments are permitted under the 2017 Term Loan Facility without premium or penalty.

The 2017 Term Loan Facility includes customary events of default, conditions to borrowing and covenants, including negative covenants that restrict, subject to certain exceptions, the borrower's and the guarantors' ability to incur indebtedness, incur liens, make fundamental changes to their respective businesses, make certain types of restricted payments and investments or enter into certain transactions with affiliates. The borrower is required to maintain an average debt service coverage ratio of 1.20 to 1. As of September 30, 2017, the Company was in compliance with such covenants.

The obligations of the borrower are secured by a pledge o f the membership interests in the borrower, all of the borrower's assets, and the assets of the borrower's directly owned subsidiaries acting as managing members of the 2017 Term Loan Portfolio. In addition, the Company guarantees certain obligations of th e borrower under the 2017 Term Loan Facility.

Interest expense for the 2017 Term Loan Facility was approximately $3.2 million and $9.4 million for the three and nine months ended September 30, 2017. No interest expense was incurred for the three and nine months ended September 30, 2016. As of September 30, 2017, the Company had $19.2 million in required reserves outstanding in collateral accounts with the administrative agent, which were included in restricted cash and cash equivalents.

2016 Term Loan Facility

In August 2016, the Company entered into a credit agreement (the "2016 Term Loan Facility") pursuant to which it borrowed $300.0 million aggregate principal amount of term borrowings and $12.1 million for letters of credit from certain financial institutions for which Investec Bank PLC is acting as administrative agent. The borrower under the 2016 Term Loan Facility is Vivint Solar Financing II, LLC, a wholly owned indirect subsidiary of the Company.

For the initial four years of the term of the 2016 Term Loan Facility, interest on borrowings accrues at an annual rate equal to the London Interbank Offered Rate ("LIBOR") plus 3.00%. Thereafter, interest accrues at an annual rate equal to LIBOR plus 3.25%. The Company has entered into an interest rate swap hedging arrangement such that approximately 90% of the aggregate principal amount of the outstanding term loan is subject to a fixed interest rate. See Note 11—Derivative Financial Instruments. Certain principal payments are due on a quarterly basis subject to the occurrence of certain events, including proceeds received by the borrower or subsidiary guarantors in respect of casualties, proceeds received for purchased systems, and failure to meet certain distribution conditions. Estimated principal payments due in the next 12 months are classified as the current portion of long-term debt, net of the related unamortized debt issuance costs. Optional prepayments, in whole or in part, are permitted under the 2016 Term Loan Facility, without premium or penalty apart from any customary LIBOR breakage provisions.

The 2016 Term Loan Facility includes customary events of default, conditions to borrowing and covenants, including negative covenants that restrict, subject to certain exceptions, the borrower's and the guarantors' ability to incur indebtedness, incur liens, make fundamental changes to their respective businesses, make certain types of restricted payments and investments or enter into certain transactions with affiliates. A debt service reserve account was funded with the outstanding letters of credit under the 2016 Term Loan Facility. As such, the debt service reserve is not classified as restricted cash and cash equivalents on the condensed consolidated balance sheets. The borrower is required to maintain an average debt service coverage ratio of 1.55 to 1. As of September 30, 2017, the Company was in compliance with such covenants.

Prior to the maturity of the 2016 Term Loan Facility, a fund investor could exercise a put option in two of the Company's investment funds and require the Company to purchase the fund investor's interest in those investment funds . As such, the Company was required to establish a $2.9 million reserve at the inception of the 2016 Term Loan Facility in order to pay the fund investor if either of the put options is exercised prior to the maturity of the 2016 Term Loan Facility. This reserve is classified as restricted cash and cash equivalents. Previously, the Company was required to establish a $2.4 million escrow account with respect to those systems in the 2016 Term Loan Portfolio that had not been placed in service as of the closing date. During the nine months ended September 30, 2017, these conditions were met and the escrow was released.

The obligations of the borrower are secured by a pledge of the membership interests in the borrower, all of the borrower's assets, and the assets of the borrower's directly owned subsidiaries acting as managing members of the underlying investment funds. In addition, the Company guarantees certain obligations of the borrower under the 2016 Term Loan Facility.

Interest expense for the 2016 Term Loan Facility was approximately $3.7 million and $2.2 million for the three months ended September 30, 2017 and 2016. Interest expense was approximately $10.8 million and $2.2 million for the nine months ended September 30, 2017 and 2016.

Subordinated HoldCo Facility

In March 2016, the Company entered into a financing agreement (the "Subordinated HoldCo Facility") pursuant to which it borrowed an aggregate principal amount of $200.0 million of term loans from investment funds and accounts advised by HPS Investment Partners. The borrower under the Subordinated HoldCo Facility is Vivint Solar Financing Holdings, LLC, one of the Company's wholly owned subsidiaries. Borrowings under the Subordinated Holdco Facility mature in March 2020. The Company may not prepay any borrowings outside of required prepayments until March 2018, and any subsequent prepayments of principal are subject to a 3.0% fee. Borrowings under the Subordinated HoldCo Facility were used for the construction and acquisition of solar energy systems.

Interest accrues at a floating rate of LIBOR plus 8.0%. Certain principal payments are due on a quarterly basis. Estimated principal payments due in the next 12 months are classified as the current portion of long-term debt, net of the related unamortized debt issuance costs.

The Subordinated HoldCo 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 Subordinated HoldCo 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. As of September 30, 2017, the Company was in compliance with such covenants. Each of the parties to the Subordinated HoldCo Facility has pledged assets not otherwise pledged under another existing debt facility as collateral to secure their obligations under the Subordinated HoldCo Facility. Vivint Solar Financing Holdings Parent, LLC, another of the Company's wholly owned 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.

Interest expense for the Subordinated HoldCo Facility was approximately $5.0 million and $2.6 million for the three months ended September 30, 2017 and 2016. Interest expense was approximately $14.4 million and $4.4 million for the nine months ended September 30, 2017 and 2016. A $10.4 million interest reserve amount was deposited in an interest reserve account with the administrative agent and is included in restricted cash and cash equivalents.

Credit Agreement

In February 2016, a wholly owned subsidiary of the Company entered into a credit agreement (the "Credit Agreement") pursuant to which Goldman Sachs, through GSUIG Real Estate Member LLC, committed to lend an aggregate principal amount of up to $3.0 million upon the satisfaction of certain conditions and the approval of the lenders . Proceeds from the Credit Agreement were used for the deployment of certain solar energy systems. Principal and interest payments under the Credit Agreement will be paid quarterly over the term of the loan until the final maturity date of February 2023. The Company did not draw upon the full borrowing capacity of the Credit Agreement, and no borrowing capacity remained as of September 30, 2017. Interest accrues on borrowings at a rate of 6.50%. Interest expense under the Credit Agreement was de minimis for the three months ended September 30, 2017 and 2016. Interest expense was approximately $0.1 million and de minimis for the nine months ended September 30, 2017 and 2016.

Aggregation Facility

In September 2014, the Company entered into an aggregation credit facility (as amended, the "Aggregation Facility"), 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.

In March 2017, the Company amended the Aggregation Facility, and the parties agreed to (1) extend the date through which the Company may incur borrowings under the Aggregation Facility to March 31, 2020 ("Availability Period"), with an option to extend such period by an additional 12 months to the extent the lenders agree to such extension; (2) extend the maturity date for the initial loans under the Aggregation Facility from March 2018 to September 2020; and (3) increase the "Applicable Margin" used to determine the applicable interest rate on outstanding borrowings after the Availability Period from 3.50% to 3.75%. The "Applicable Margin" used to determine the applicable interest rate on outstanding borrowings during the Availability Period remains unchanged at 3.25%.

In addition, the amendments to the Aggregation Facility (1) allow the Company to satisfy concentration covenants by maintaining insurance policies with respect to certain tax equity funds for the benefit of the lenders to cover any indemnification payments the Company may be required to make to certain of its tax equity investors in connection with the loss of ITCs, and (2) modify the customer FICO score requirement thresholds to enable the Company to borrow more against certain solar energy systems. The amendments to the Aggregation Facility also provide the ability for the Company to enter into forward-starting interest rate hedges and require no less than 75% of outstanding loan balances to be hedged. The Company is required to meet this threshold within 15 business days after the end of each quarterly period. See Note 11—Derivative Financial Instruments.

Prepayments are permitted under the Aggregation Facility, and the principal and accrued interest on any outstanding loans mature in September 2020. Und er the Aggregation Facility, interest on borrowings accrues at a floating rate equal to either (1)(a) 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 tha t varies between 3.25% during the period during which the Company may incur borrowings and 3.75% 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 certain of the Company's investment funds. These managing members guarantee the borrower's obligations under the Aggregation Facility. In addition, Vivint Solar Financing I Parent, LLC, 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 September 30, 2017, the Company was in compliance with such covenants.

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 $2.5 million and $3.0 million for the three months ended September 30, 2017 and 2016. Interest expense was approximately $7.6 million and $11.2 million for the nine months ended September 30, 2017 and 2016. As of September 30, 2017, the current portion of debt issuance costs of $3.1 million was recorded in prepaid expenses and other current assets, and the long-term portion of debt issuance costs of $6.1 million was recorded in other non-current assets, net. As of September 30, 2017, the Company had $3.0 million in required reserves outstanding in collateral accounts with the administrative agent, which were included in restricted cash and cash equivalents. The interest reserve increases as borrowings increase under the Aggregation Facility.

Working Capital 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 $150.0 million from certain financial institutions for which Goldman Sachs Lending Partners LLC is acting as administrative agent and collateral agent. Available borrowings under the Working Capital Facility are subject to a borrowing base tied to the (1) level of PPA and Solar Lease systems under development and (2) combined future available tax equity fund commitments and available borrowing capacity under the Company's back-leverage facilities. To the extent that outstanding borrowings exceed the borrowing base, the Company would be required to repay borrowings under the Working Capital Facility. 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. In addition to the outstanding borrowings as of September 30, 2017, the Company had established letters of credit under the Working Capital Facility for up to $13.5 million related to insurance contracts.

T he Company has pledged the interests in the assets of the Company and its subsidiaries, excluding the Company's existing investment funds, their managing members, the 2017 Term Loan Facility, the 2016 Term Loan Facility, the Subordinated HoldCo Facility, the Aggregation Facility and Solmetric Corporation, 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 tha t 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 part y 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 Compa ny'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 September 30, 2017, 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 $1.6 million and $1.4 million for the three months ended September 30, 2017 and 2016. Interest expense was approximately $4.9 million and $4.4 million for the nine months ended September 30, 2017 and 2016. As of September 30, 2017, the current portion of debt issuance costs of $0.5 million was recorded in prepaid expenses and other current assets, and the long-term portion of debt issuance costs of $0.8 million was recorded in other non-current assets, net.

Interest Expense and Amortization of Debt Issuance Costs

For the three months ended September 30, 2017 and 2016, total interest expense incurred under all debt obligations was approximately $16.0 million and $9.2 million, of which $1.9 million and $1.8 million was amortization of debt issuance costs. For the nine months ended September 30, 2017 and 2016, total interest expense incurred under all debt obligations was approximately $47.2 million and $22.2 million, of which $6.9 million and $4.5 million was amortization of debt issuance costs.

11. Derivative Financial Instruments

Derivative financial instruments consisted of the following at fair value (in thousands):

	September 30, 2017	
	Fair Value	Balance Sheet Location
Derivatives designated as hedging instruments:		
Interest rate swaps	$ 12,283	Other non-current assets
Derivatives not designated as hedging instruments:		
Interest rate swaps	$ 1,834	Other non-current liabilities

	December 31, 2016	
	Fair Value	Balance Sheet Location
Derivatives designated as hedging instruments:		
Interest rate swaps	$ 14,317	Other non-current assets

The Company is exposed to interest rate risk relating to its outstanding debt facilities that have variable interest rates. In connection with the 2016 Term Loan Facility, the Company entered into interest rate swaps to offset changes in the variable interest rate for a portion of the Company's LIBOR-indexed floating-rate loans. As of September 30, 2017, the notional amount of these interest rate swaps was $263.9 million. The notional amount of the interest rate swaps decreases through July 31, 2028 similar to the Company's estimated monthly and quarterly principal payments on its loans through that date. The interest rate swaps are designated as cash flow hedges, and unrealized gains or losses on the effective portion are recorded in other comprehensive income ("OCI"). The amount of accumulated other comprehensive income ("AOCI") expected to be reclassified to interest expense within the next 12 months is approximately $1.2 million. The Company will discontinue the hedge accounting designation of these derivatives if interest payments on LIBOR-indexed floating rate loans compared to the payments under the derivatives are no longer highly effective.

In connection with the March 2017 amendment of the Aggregation Facility, the Company is required to maintain interest rate swaps such that at least 75% of the outstanding loan balance of the Aggregation Facility is hedged. The Company is required to meet this threshold within 15 business days after the end of each quarterly period. As of September 30, 2017, the Company had entered into interest rate swaps with an aggregate notional amount of $77.0 million. The interest rate swaps terminate when the Aggregation Facility matures in September 2020. The Company did not designate these interest rate swaps as hedge instruments and accounts for any changes in fair value in other expense, net.

The Company records derivatives at fair value. The effect of derivative financial instruments on the condensed consolidated statements of comprehensive income and the condensed consoli dated statements of operations, before tax effect, consisted of the following (in thousands):

	Three Months Ended September 30,		
	2017	2016	Location of Gain (Loss)
Derivatives designated as cash flow hedges:			
(Losses) gains recognized in OCI - effective portion:			
Interest rate swaps	$ (828)	$ 715	OCI
Gains reclassified from AOCI into income - effective portion:			
Interest rate swaps	$ 156	$ —	Interest expense
Gains recognized in income - ineffective portion:			
Interest rate swaps	$ 120	$ 258	Other expense, net

	Three Months Ended September 30,		
	2017	2016	Location of Loss
Derivatives not designated as hedging instruments:			
Interest rate swaps	$ (320)	$ —	Other expense, net

	Nine Months Ended September 30,		
	2017	2016	Location of Gain (Loss)
Derivatives designated as cash flow hedges:			
(Losses) gains recognized in OCI - effective portion:			
Interest rate swaps	$ (2,688)	$ 715	OCI
Gains reclassified from AOCI into income - effective portion:			
Interest rate swaps	$ 13	$ —	Interest expense
Gains recognized in income - ineffective portion:			
Interest rate swaps	$ 641	$ 258	Other expense, net

	Nine Months Ended September 30,		
	2017	2016	Location of Loss
Derivatives not designated as hedging instruments:			
Interest rate swaps	$ (1,834)	$ —	Other expense, net

12 .Investment Funds

As of September 30, 2017 and December 31, 2016, the Company had 21 and 20 investment funds for the purpose of funding the purchase of solar energy systems. The aggregate carrying value of these funds' assets and liabilities (after elimination of intercompany transactions and balances) in the Company's condensed consolidated balance sheets were as follows (in thousands):

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 27,983	$ 23,190
Accounts receivable, net	9,575	3,958
Prepaid expenses and other current assets	1,179	761
Total current assets	38,737	27,909
Solar energy systems, net	1,434,679	1,273,813
Other non-current assets, net	5,814	1,781
Total assets	$ 1,479,230	$ 1,303,503
Liabilities		
Current liabilities:		
Distributions payable to non-controlling interests and redeemable non-controlling interests	$ 11,664	$ 16,176
Current portion of deferred revenue	8,198	8,148
Accrued and other current liabilities	4,456	4,458
Total current liabilities	24,318	28,782
Deferred revenue, net of current portion	29,513	33,536
Other non-current liabilities	1,455	1,875
Total liabilities	$ 55,286	$ 64,193

Under the fund agreements, cash distributions of income and other receipts by the funds, 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 investors and the Company's subsidiaries as specified in contractual arrangements. As such, the cash held in investment funds is not readily available to the Company due to the timing of distributions. Certain of these fund arrangements have call and put options to acquire the investor's equity interest as specified in the contractual agreements. Once the investor's equity interest is acquired by the Company, the assets, liabilities and operations of the investment fund become wholly owned and no longer require an assessment of non-controlling interests.

Fund investors for three of the funds are managed indirectly by The Blackstone Group L.P. (the "Sponsor") and are considered related parties. As of September 30, 2017 and December 31, 2016, the cumulative total of contributions into the VIEs by all investors was $1,213.2 million and $1,050.9 million. Of these contributions, a cumulative total of $110.0 million was contributed by related parties in prior periods. A third-party provider has agreed to perform backup maintenance services for all funds, if necessary.

Lease Pass-Through Financing Obligation

During 2015, a wholly owned subsidiary of the Company entered into a lease pass-through fund arrangement under which the Company contributed solar energy systems and the investor contributed cash. The net carrying value of the related solar energy systems was $58.9 million and $60.5 million as of September 30, 2017 and December 31, 2016.

Under the arrangement, the fund investor made large upfront payments to one of the Company's wholly owned subsidiaries and is obligated to make subsequent periodic payments. The Company allocated 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 were also assigned to the investor. The fair value of the ITCs was estimated by multiplying the ITC rate of 30% by the fair value of the systems that were sold to the lease pass-through fund. The fair value of the systems was determined by independent appraisals. The Company's subsidiary has an obligation to ensure the solar energy systems are 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 the ITCs were initially recorded as deferred revenue, and subsequently, one-fifth of the amounts allocated to the ITCs is recognized as revenue from operating leases and solar energy systems incentives based on the anniversary of each solar energy system's placed in service date.

The Company accounts for the residual of the large upfront payments, net of amounts allocated to the ITCs, a nd subsequent periodic payments received from the fund investor 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 condensed consolidated financial statements, whether the cash generated from the customer arrangements is received by the Company's wholly owned subsidiary or paid di rectly 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 recogni zed 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. Any additional master lease prepa yments by the 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.

The lease pass-through financing obligation is nonrecourse. As of September 30, 2017 and December 31, 2016, the Company had recorded financing liabilities of $35.1 million and $40.4 million related to this fund arrangement, of which $29.3 million and $34.2 million was deferred revenue and $5.8 million and $6.2 million was the lease pass-through financing obligation recorded in other liabilities.

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. Each of the Company's investment funds and financing subsidiaries maintains separate books and records from each other and from the Company. The assets of each investment fund are not available to satisfy the debts or obligations of any other investment fund, subsidiary or the Company.

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 condensed 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.

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 non-performance fee. No distributions were paid to reimburse fund investors during the three months ended September 30, 2017. Distributions paid to reimburse fund investors totaled $8.4 million during the nine months ended September 30, 2017. As of September 30, 2017, no accrual for additional distributions was required.

As a result of the guaranty arrangements in certain funds, the Company was required to hold a minimum cash balance of $10.0 million as of September 30, 2017 and December 31, 2016, which is classified as restricted cash and cash equivalents.

13 .Redeemable Non-Controlling Interests and Equity

Common Stock

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

	September 30, 2017	December 31, 2016
Shares available for grant under equity incentive plans	13,626	11,596
Restricted stock units issued and outstanding	6,534	7,964
Stock options issued and outstanding	3,476	4,184
Long-term incentive plan	2,706	2,706
Total	26,342	26,450

Redeemable Non-Controlling Interests, Equity and Non-Controlling Interests

The changes in redeemable non-controlling interests were as follows (in thousands):

Balance as of December 31, 2016	$ 129,676
Contributions from redeemable non-controlling interests	37,181
Distributions to redeemable non-controlling interests	(5,812)
Net loss	(33,212)
Balance as of September 30, 2017	$ 127,833

The changes in stockholders' equity and non-controlling interests were as follows (in thousands):

	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
Balance as of December 31, 2016	$ 556,298	$ 110,536	$ 666,834
Cumulative-effect adjustment from adoption of ASU 2016-09	806	—	806
Stock-based compensation expense	9,501	—	9,501
Issuance of common stock	603	—	603
Contributions from non-controlling interests	—	125,110	125,110
Distributions to non-controlling interests	—	(23,450)	(23,450)
Total other comprehensive loss	(1,604)	—	(1,604)
Net income (loss)	25,177	(122,171)	(96,994)
Balance as of September 30, 2017	$ 590,781	$ 90,025	$ 680,806

Non-Controlling Interests and Redeemable Non-Controlling Interests

Seven of the investment funds include a right for the non-controlling interest holder to require the Company's wholly owned subsidiary to purchase all of its membership interests in the fund (each, a "Put 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 recorded us ing the greater of their carrying value at each reporting date (which is impacted by attribution under the hypothetical liquidation at book value ("HLBV") method) or their estimated redemption value in each reporting period.

In all investment funds excep t one, the Company's wholly owned subsidiary has the right to require the non-controlling interest holder to sell all of its membership units to the Company's wholly owned subsidiary (each, a "Call Option"). The purchase price for the fund investors' inter ests 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 caus es 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.

14 .Equity Compensation Plans

Equity Incentive Plans

2014 Equity Incentive Plan

The Company currently grants equity awards through its 2014 Equity Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Company may grant stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights, performance share units ("PSUs"), performance shares and performance awards to its employees, directors and consultants, and its parent and subsidiary corporations' employees and consultants.

As of September 30, 2017, a total of 13.6 million shares of common stock were available to grant under the 2014 Plan, subject to adjustment in the case of certain events. The number of shares available to grant under the 2014 Plan is subject to an annual increase on the first day of each year. In accordance with the annual increase, an additional 4.4 million shares became available to grant in January 2017 under the 2014 Plan.

Stock Options

Stock Option Activity

Stock option activity for the nine months ended September 30, 2017 was as follows (in thousands, except term and per share amounts):

	Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding—December 31, 2016	4,184	$ 1.64		$ 4,876
Granted	108	2.85		
Exercised	(556)	1.08		
Cancelled	(260)	1.02		
Outstanding—September 30, 2017	3,476	$ 1.82	6.8	$ 6,257
Options vested and exercisable—September 30, 2017	1,699	$ 1.55	6.1	$ 3,628

RSUs and PSUs

RSU and PSU activity for the nine months ended September 30, 2017 was as follows (awards in thousands):

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2016	7,964	$ 3.14
Granted	3,083	3.29
Vested	(3,962)	3.17
Forfeited	(551)	2.98
Outstanding at September 30, 2017	6,534	$ 3.20

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$ 164	$ 877	$ 738	$ 1,817
Sales and marketing	601	860	2,710	2,473
General and administrative	1,421	1,940	5,763	2,493
Research and development	63	1	290	(638)
Total stock-based compensation	$ 2,249	$ 3,678	$ 9,501	$ 6,145

Unrecognized stock-based compensation expense for time-based stock options, RSUs and PSUs as of September 30, 2017 was as follows (in thousands, except years):

	Unrecognized Stock-Based Compensation Expense	Weighted-Average Period of Recognition (in years)
RSUs and PSUs	$ 13,916	1.6
Time-based stock options	1,449	1.3
Total unrecognized stock-based compensation expense	$ 15,365	

15 .Income Taxes

The income tax expense for the three months ended September 30, 2017 and 2016 was calculated on a discrete basis resulting in a consolidated quarterly effective income tax rate of (33.1)% and 7.0%. For the nine months ended September 30, 2017 and 2016, the Company's consolidated effective income tax rate was (22.5)% and (5.5)%. The variations between the consolidated effective income tax rate and the U.S. federal statutory rate for the three and nine months ended September 30, 2017 and 2016 were primarily attributable to the effect of non-controlling interests and redeemable non-controlling interests, federal investment tax credits and amortization of the prepaid tax asset. Also contributing to the variance for the nine months ended September 30, 2016 was the goodwill impairment charge.

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 eliminated in the condensed 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 $482.4 million and $419.5 million as of September 30, 2017 and December 31, 2016.

Uncertain Tax Positions

As of September 30, 2017 and December 31, 2016, the Company had no unrecognized tax benefits. There was no interest or penalties accrued for any uncertain tax positions as of September 30, 2017 and December 31, 2016. The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized benefits will increase or decrease within the next 12 months. The Company is subject to taxation and files income tax returns in the United States, and various state and local jurisdictions. The U.S. and state jurisdictions in which the Company operates have statutes of limitations that generally range from three to four years. The Company's federal, state and local income tax returns starting with the 2014 tax year are subject to audit. The Company's 2013 income tax returns for two states are also subject to audit.

16 .Related Party Transactions

The Company's condensed consolidated statements of operations included the following related party transactions (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenue—operating leases and incentives	$ 70	$ 661	$ 701	$ 2,677
Sales and marketing	697	711	1,959	1,807
General and administrative	15	107	139	388

Vivint Services

The Company has negotiated and entered into a number of agreements with its sister company, Vivint, Inc. ("Vivint"). Some of those agreements related to the Company's use of certain of Vivint's information technology and infrastructure services; however, the Company stopped using such services in July 2017. In August 2017, the Company entered into a sales dealer agreement with Vivint, pursuant to which each company will act as a non-exclusive dealer for the other party to market, promote and sell each other's products. The agreement has an initial term of two years and replaces substantially all of the activities being undertaken under the parties' existing marketing and customer relations agreement. The Company and Vivint also agreed to extend the term of the non-solicitation provisions under an existing non-competition agreement to match the term of the sales dealer agreement. The Company incurred fees under agreements with Vivint of $0.7 million and $0.8 million for the three months ended September 30, 2017 and 2016, which reflect the amount of services provided by Vivint on behalf of the Company. The Company incurred fees under these agreements of $1.8 million and $3.2 million for the nine months ended September 30, 2017 and 2016.

Payables to Vivint recorded in accounts payable—related party were $0.5 million and $0.2 million as of September 30, 2017 and December 31, 2016. These payables include amounts due to Vivint related to the services agreements and other miscellaneous intercompany payables.

Advances Receivable — Related Party

Net amounts due from direct-sales personnel were $6.2 million and $3.7 million as of September 30, 2017 and December 31, 2016. The Company provided a reserve of $0.8 million and $1.3 million as of September 30, 2017 and December 31, 2016 related to advances to direct-sales personnel who have terminated their employment agreement with the Company.

Investment Funds

Fund investors for three of the investment funds are indirectly managed by the Sponsor and accordingly are considered related parties. The Company accrued equity distributions to these entities of $1.8 million and $1.6 million as of September 30, 2017 and December 31, 2016, included in distributions payable to non-controlling and redeemable non-controlling interests. See Note 12—Investment Funds.

17 .Commitments and Contingencies

Non-Cancellable Operating Leases

The Company has entered into operating lease agreements for corporate and operating facilities, warehouses and related equipment in states in which the Company conducts operations. The aggregate expense incurred under these operating leases was $4.0 million and $4.5 million for the three months ended September 30, 2017 and 2016. The aggregate expense incurred under these operating leases was $12.4 million and $13.1 million for the nine months ended September 30, 2017 and 2016.

Letters of Credit

As of September 30, 2017, the Company had established letters of credit under the Working Capital Facility for up to $13.5 million related to insurance contracts and under the 2016 Term Loan Facility for $12.1 million related to the debt service reserve for the 2016 Term Loan Facility. 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. For further information see Note 12—Investment Funds.

Legal Proceedings

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. In May 2015, the Company filed a motion to dismiss the complaint and in December 2015, the Court issued an Opinion and Order dismissing the complaint with prejudice. In January 2016, the plaintiffs filed a Notice of Appeal to the Second Circuit Court of Appeals. In June 2017, the Court of Appeals issued its opinion affirming the District Court's dismissal of the complaint. The plaintiffs did not petition for review in the U.S. Supreme Court. As a result, these matters are concluded.

In September 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 Professions Code Section 17200 and requesting relief pursuant to Section 1689 of the California Civil Code. The complaint sought: (1) rescission of their PPAs along with restitution to the plaintiffs individually and (2) declaratory and injunctive relief. In October 2015, the Company moved to compel arbitration of the plaintiffs' claims pursuant to the provisions set forth in the PPAs, which the Court granted and dismissed the class claims without prejudice. The plaintiffs appealed the Court's order. On July 26, 2017, the Court of Appeal for the Fifth Appellate District ruled that all issues concerning the interpretation, validity, or enforceability of the PPAs, including the arbitrability of class claims, must be submitted to arbitration. The appellate court vacated the portion of the trial court's order dismissing class claims, requiring that issue to be determined by an arbitrator. The case is now proceeding in arbitration administered by JAMS. The Company is unable to estimate the amount or range of potential loss, if any, at this time.

In March 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. In April 2016, SunEdison filed for Chapter 11 bankruptcy, thereby creating a temporary stay on the prosecution of the Company's litigation in the Delaware court. In July 2016, the Company filed a motion with the bankruptcy court seeking to lift the stay and allow the Company to litigate its claim against SunEdison. In September 2016, the bankruptcy court denied the Company's motion to lift the stay, effectively requiring that the Company's claim be litigated in the bankruptcy proceeding. In September 2016, the Company submitted a proof of claim in the bankruptcy case for an unsecured claim in the amount of $1.0 billion. The Company is participating in the bankruptcy case so as to maximize the recovery from the claims against SunEdison.

In November 2016, a customer of the Company filed a putative class action lawsuit in Superior Court in Alameda County, California, purportedly on behalf of all customers of a particular Company sales representative in California, claiming that the representative's sales practices were improper under California consumer protection law. The Company moved to dismiss that action to compel arbitration. In March 2017, the original plaintiff filed an amended complaint adding an additional plaintiff, purporting to expand the proposed class to include all customers who are eligible for the California Alternate Rates for Energy program, and adding claims of misconduct in the Company's sales practices apart from the individual representative identified in the original complaint. The Company has moved to compel arbitration of the new plaintiff's claims as well. The Company disputes the allegations in both the original and amended complaints and intends to defend itself in the action. 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.

In March 2017, the Company received notice that the New Mexico Attorney General's office intended to file an action against the Company and its officers alleging violation of state consumer protection statutes. The State of New Mexico has not, to date, filed an action against the Company. In the event that the Company is not able to resolve the State of New Mexico's concerns outside of litigation, the Company intends to defend itself in the action. The Company is unable to estima te a range of loss, if any, that could result if the State were to file an action and 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 result s of operations in the period(s) in which any such outcome becomes probable and estimable.

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.

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

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 three and nine months ended September 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income available (loss attributable) to common stockholders	$ 6,905	$ 16,696	$ 25,177	$ (2,152)
Denominator:				
Shares used in computing net income available (loss attributable) per share to common stockholders, basic	114,505	108,692	112,554	107,516
Weighted-average effect of potentially dilutive shares to purchase common stock	4,960	4,652	5,271	—
Shares used in computing net income available (loss attributable) per share to common stockholders, diluted	119,465	113,344	117,825	107,516
Net income available (loss attributable) per share to common stockholders:				
Basic	$ 0.06	$ 0.15	$ 0.22	$ (0.02)
Diluted	$ 0.06	$ 0.15	$ 0.21	$ (0.02)

For the three months ended September 30, 2017 and 2016, 0.2 million shares and 0.3 million shares were excluded from the dilutive share calculations as the effect on net income per share would have been anti-dilutive. For the nine months ended September 30, 2017, 0.8 million shares were excluded from the dilutive share calculations as the effect on net income per share would have been anti-dilutive. For the nine months ended September 30, 2016, the Company incurred a net loss 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 the period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part 1, Item 1 of this report. This discussion contains certain 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 read these 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 U.S. federal investment 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 manage growth, product offering mix and costs;
- our ability to further penetrate existing markets and expand into new markets;
- our ability to develop new product offerings and distribution channels;
- our ability to increase solar energy system sales;
- 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.

Overview

We primarily offer distributed solar energy — electricity generated by a solar energy system installed at or near customers' locations — to residential customers, typically through a customer-focused and neighborhood-driven direct-to-home sales model. We believe we are disrupting the traditional electricity market by satisfying customers' demand for increased energy independence and less expensive, more socially responsible electricity generation. As a result, we primarily compete with traditional utilities in the markets we serve, and our strategy is to price the energy we sell below prevailing retail electricity rates. The price our customers pay to buy energy from us varies depending on the state where the customer is located, the impact of the local traditional utility, customer price sensitivity, the availability of incentives and rebates, the need to offer a compelling financial benefit and the price other solar energy companies charge in the region. We also compete with distributed solar energy system providers for solar energy system sales on the basis of price, service and availability of financing options.

Our primary product offering includes the following:

- *Power Purchase Agreements.* Under power purchase agreements, or PPAs, we charge customers a fee per kilowatt hour based on the electricity production of the solar energy system, which is billed monthly. PPAs typically have a term of 20 years and are subject to an annual price escalator of 2.9%. Over the term of the PPA, we operate the system and agree to maintain it in good condition. Customers who buy energy from us under PPAs are covered by our workmanship warranty equal to the length of the term of these agreements.

- *Legal-form Leases.* Under legal-form leases, or Solar Leases, we charge customers a fixed monthly payment to lease the solar energy system, which is based on a calculation that accounts for expected solar energy generation. Solar Leases typically have a term of 20 years and are subject to an annual price escalator of 2.9%. We provide our Solar Lease customers a performance guarantee, under which we agree to refund certain payments to the customer if the solar energy system does not meet the guaranteed production level in the prior 12-month period. Over the term of the Solar Lease, we operate the system and agree to maintain it in good condition. Customers who buy energy from us under Solar Leases are covered by our workmanship warranty equal to the length of the term of these agreements.

- *Solar Energy System Sales.* Under solar energy system sales, or System Sales, we offer our customers the option to purchase solar energy systems for cash or through third-party financing. The price for these contracts is determined as a function of the respective market rate and the size of the solar energy system to be installed. Customers can additionally contract with us for certain structural upgrades, smart home products, battery storage systems and other accessories based on the market where they are located in connection with the installation of a solar energy system. System Sales are becoming an increasingly significant portion of our business and we believe they are more advantageous to us as they provide more immediate access to cash.

Of the 139.2 megawatts installed in the nine months ended September 30, 2017, approximately 76% were installed under PPAs, 3% were installed under Solar Leases and 21% were installed under System Sales.

From time to time, we have adjusted our installation policies and pricing. We have become more selective in our installation policies to increase incremental value by limiting the installation of smaller system sizes and limiting installations on certain roof types. We have also changed our pricing in certain markets to increase returns on investment or to place ourselves in a more competitive position. We continue to evaluate and make adjustments to our installation policies and pricing as our processes become more efficient and power rates increase. We also continue to evaluate pricing to optimize our use of capital based on market conditions and utility rates.

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 ITCs, 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 known as investment funds. 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 investment funds, the U.S. federal tax attributes offset taxes that otherwise would have been payable on the investors’ other operations. 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.

With one exception, our investment funds have adopted the partnership or inverted lease 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.

We have determined that we are the primary beneficiary in these partnership and in verted lease structures for accounting purposes. Accordingly, we consolidate the assets and liabilities and operating results of these partnerships in our condensed 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 condensed consolidated balance sheets. These income or loss allocations, reflected on our condensed consolidated statements of op erations, 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.

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 for which panels, inverters, and mounting and racking hardware have been installed on customer premises in the period. Cumulative megawatts installed represents the aggregate megawatt nameplate capacity of solar energy systems for which panels, inverters, and mounting and racking hardware have been installed on customer premises.
- *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 PPAs or Solar Leases with us for systems installed as of the measurement date. For a PPA, 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 Solar Lease, we include the monthly fees and upfront fee, if any, as set forth in the lease.
- *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 PPAs and Solar Leases.
- *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 PPA or Solar Lease term. To calculate estimated retained value of renewal, we assume all PPAs and Solar Leases are renewed at 90% of the contractual price in effect at the expiration of the initial term.
- *Estimated retained value* . Estimated retained value represents the net cash flows discounted at 6% that we expect to receive from customers pursuant to PPAs and Solar Leases net of estimated cash distributions to fund investors and estimated operating expenses for systems installed as of the measurement date.
- *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 PPAs and Solar Leases that have been installed as of such date, and is subject to the same assumptions and uncertainties as estimated retained value.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Solar energy system installations	7,076	8,266	20,765	24,611
Megawatts installed	46.5	58.8	139.2	175.1

Solar energy system installations and megawatts installed have decreased for the three and nine months ended September 30, 2017 compared to the respective prior periods due in part to our taking a disciplined approach to install solar energy systems more profitably, slowing growth in the residential solar market, as well as increased competition. Our focus on profitability has included increasing System Sales, increasing prices in certain markets and expanding in markets with larger returns on investment, which has contributed to the decreases in solar energy system installations and megawatts installed.

	September 30, 2017	December 31, 2016
Cumulative solar energy system installations	120,363	99,598
Cumulative megawatts installed	820.3	681.1
Estimated nominal contracted payments remaining (in millions)	$ 2,913.2	$ 2,568.6
Estimated retained value under energy contracts (in millions)	$ 1,175.5	$ 1,015.1
Estimated retained value of renewal (in millions)	$ 359.7	$ 299.4
Estimated retained value (in millions)	$ 1,535.2	$ 1,314.5
Estimated retained value per watt	$ 1.98	$ 1.98

Seasonality

We experience seasonal fluctuations in our operations. For example, the amount of revenue we recognize in a given period from PPAs 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 and other areas where winter weather is impactful. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. However, the true extent of these fluctuations may have been masked by our historical 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, 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 condensed 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; ITCs; revenue recognition; solar energy systems, net; the impairment analysis of long-lived assets; stock-based compensation; the provision for income taxes; the valuation of derivative financial instruments; the recognition and measurement of loss contingencies; and non-controlling interests and redeemable non-controlling interests have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Effective January 1, 2017, we adopted Accounting Standards Update, or ASU, 2016-09, ASU 2017-09 and ASU 2015-11. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions. The adoption of ASU 2016-09 resulted in a net $1.2 million reduction to retained earnings as of January 1, 2017. ASU 2017-09 clarifies when changes to equity awards require the use of modification accounting guidance. This guidance was adopted prospectively and no prior periods were adjusted. ASU 2015-11 changes the measurement principle for inventories valued under the first-in, first-out or weighted-average methods from lower of cost or market to the lower of cost or net realizable value. We adopted ASU 2015-11 prospectively and no prior periods were adjusted. See Note 2—Summary of Significant Accounting Policies for additional details on these ASUs.

There have been no other material changes to our critical accounting policies and estimates during the nine months ended September 30, 2017 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2016.

Components of Results of Operations

Revenue

Operating Leases and Incentives. We classify and account for our PPAs as operating leases, and recognize revenue from these contracts based on the actual amount of power generated at rates specified under the contracts. We also classify and account for our Solar Leases, which include performance guarantees, as operating 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 recognize revenue on a straight-line basis over the lease term.

One of our investment funds is structured as a lease pass-through fund arrangement. Under the agreement, we contributed solar energy systems and the investor made large upfront payments to one of our wholly owned subsidiaries and is obligated to make subsequent periodic payments. We allocated a portion of the aggregate payments received from the fund investor to the estimated fair value of assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investor. The fair value of the ITCs was estimated by multiplying the ITC rate of 30% by the fair value of the systems that were sold to the lease pass-through fund. The fair value of the systems was determined by independent appraisals. Our subsidiary has an obligation to ensure the solar energy systems are in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly, we recognize revenue as the recapture provisions lapse assuming all other revenue recognition criteria have been met. The amounts allocated to the ITCs are initially recorded as deferred revenue in the condensed consolidated balance sheet, and subsequently, one-fifth of the amounts allocated to the ITCs is recognized as revenue from operating leases and solar energy systems incentives in the condensed consolidated statements of operations based on the anniversary of each solar energy system's placed in service date.

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. Less than 1% of our revenue was attributable to state and local rebates and incentives in all periods presented. We also apply for and receive SRECs in certain jurisdictions for power generated by our solar energy systems under long-term customer contracts. We generally recognize revenue related to the sale of SRECs upon delivery to the buyer. 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.

Solar Energy System and Product Sales. Solar energy systems and product sales primarily includes revenue from System Sales. Revenue for System Sales 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 System Sales as a percentage of total revenue has increased significantly during the three and nine months ended September 30, 2017 as a result of our increased focus on System Sales. Revenue related to the sale of photovoltaic installation devices and software products follows the respective revenue recognition guidance for these sales. We anticipate solar energy system and product sales to continue to increase as a percentage of total revenue over time, albeit at a slower rate than what we have experienced year to date. Revenue mix will likely vary on a period-to-period basis as a result of regulatory, competitive and other local market conditions.

The following table sets forth our revenue by major product (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Operating leases and other incentives	$ 35,438	$ 26,984	$ 90,023	$ 65,070
SREC sales	8,911	4,904	24,857	13,457
ITC revenue	1,560	1,506	4,831	1,506
Total operating leases and incentives	45,909	33,394	119,711	80,033
System Sales	28,805	7,228	80,118	11,873
Photovoltaic installation devices and software products	425	640	1,419	1,490
Total solar energy system and product sales	29,230	7,868	81,537	13,363
Total revenue	$ 75,139	$ 41,262	$ 201,248	$ 93,396

Operating Expenses

Cost of Operating Leases and Incentives Revenue. Cost of operating leases and incentives includes the depreciation of the cost of solar energy systems under long-term customer contracts, which are depreciated for accounting purposes over 30 years; and the amortization of the related capitalized initial direct costs, which are amortized over the term of the long-term customer contract. It also includes allocated indirect material and labor 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 operating leases and incentives also includes allocated facilities and information technology costs. The cost of revenue for the sales of SRECs is limited to broker fees which are paid in connection with certain SREC transactions. In the fourth quarter of 2017, we expect the cost of operating leases and incentives to increase in absolute dollars compared to the third quarter of 2017 primarily due to depreciation associated with additional solar energy systems being placed in service.

Cost of Solar Energy System and Product Sales Revenue . Cost of solar energy system and product sales consists of direct and allocated indirect material and labor costs and overhead costs for System Sales, photovoltaic installation devices and software products and structural upgrades. Indirect material and labor costs are ratably allocated to System Sales and include costs related to the processing; account creation; design; installation; interconnection and servicing of solar energy systems, 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 solar energy system and product sales also includes allocated facilities and information technology costs. Costs of solar energy system sales are recognized in conjunction with the related revenue upon the solar energy system passing an inspection by the responsible governmental department after completion of system installation and interconnection to the power grid, assuming all other revenue recognition criteria are met. In the fourth quarter of 2017, w e expect the cost of solar energy system and product sales to increase in absolute dollars compared to the third quarter of 2017 due to increased volume of System Sales.

In addition, the U.S. International Trade Commission, or the USITC, has reviewed the impact of imported crystalline silicon cells and modules on domestic solar manufacturers and found in September 2017 that injury had occurred. On October 31, 2017, the USITC issued three remedy recommendations and is expected to formally send them to the President of the United States by November 13, 2017. If approved by the President, any of the proposals could have a significant impact on our costs, business and prospects. The President will have 60 days to decide whether to adopt any of the remedies proposed by the USITC or the President may impose another remedy, including import volume limits, and other means, which could increase the prices of solar cells and modules from most countries outside the United States. This has created higher near-term demand and pricing, and depending on the ultimate remedy, could significantly increase our costs for solar panels.

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; allocated facilities and information technology costs; travel; professional services and costs related to pre-installation sales activities. In the fourth quarter of 2017, w e expect sales and marketing expenses to remain consistent in absolute dollars compared to the third quarter of 2017.

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, other solar technologies and software products. Research and development costs are charged to expense when incurred. In the fourth quarter of 2017, w e expect research and development expenses to remain consistent in absolute dollars compared to the third quarter of 2017.

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. 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 continued to use certain of Vivint's information technology and infrastructure until we transitioned off in July 2017. In the fourth quarter of 2017, we expect general and administrative expenses to remain consistent in absolute dollars compared to the third quarter of 2017.

Amortization of Intangible Assets. We have recorded intangible assets at their fair value related to acquisitions in which we have been involved and at cost for internally developed software projects. Such intangible assets are amortized over their estimated useful lives.

Impairment of Goodwill. In conjunction with the acquisition by SunEdison failing to occur, our market capitalization decreased significantly during the first quarter of 2016, from $1.0 billion as of December 31, 2015 to $283 .0 million as of March 31, 2016. We considered this significant decrease in market capitalization to be an indicator of goodwill impairment, and we performed a test for potential impairment as of March 31, 2016. The completion of the impairment test result ed in the determination that our goodwill balance of $36.6 million was fully impaired. See Note 7—Intangible Assets and Goodwill.

Non-Operating Expenses

Interest Expense. Interest expense primarily consists of the interest charges associated with our indebtedness including the amortization of debt issuance costs and the interest component of capital lease obligations not included in solar energy systems. In the fourth quarter of 2017, we expect interest expense to be higher in absolute dollars compared to the third quarter of 2017 as we have incurred additional indebtedness. Additionally, most of our debt facilities accrue interest at floating rates and increases in those floating rates would result in higher interest expense.

Other Expense (Income), net. Other expense (income), net primarily includes changes in fair value for the ineffective portion of our cash flow hedge and other interest rate swaps and in 2016 included interest and penalties associated with tax payments.

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

Net Income Available (Loss Attributable) to Common Stockholders

We determine the net income available (loss attributable) to common stockholders by deducting from net loss the net loss attributable to non-controlling interests and redeemable non-controlling interests, which represents the investment fund investors' allocable share in the results of operations of the investment funds that we consolidate. Generally, gains and losses that are allocated to the fund investors under the hypothetical liquidation at book value, or HLBV, method 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. As of September 30, 2017, we had one operational investment fund that did not utilize the HLBV method to allocate gains and losses as we own 100% of the equity of that fund and there is no non-controlling interest attributable to a fund investor.

Results of Operations

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Revenue:				
Operating leases and incentives	$ 45,909	$ 33,394	$ 119,711	$ 80,033
Solar energy system and product sales	29,230	7,868	81,537	13,363
Total revenue	75,139	41,262	201,248	93,396
Operating expenses:				
Cost of revenue—operating leases and incentives	34,731	39,268	103,564	115,566
Cost of revenue—solar energy system and product sales	22,168	6,468	63,664	10,606
Sales and marketing	9,808	8,617	28,037	32,078
Research and development	896	842	2,687	2,218
General and administrative	19,379	19,022	60,259	60,006
Amortization of intangible assets	139	342	418	762
Impairment of goodwill	—	—	—	36,601
Total operating expenses	87,121	74,559	258,629	257,837
Loss from operations	(11,982)	(33,297)	(57,381)	(164,441)
Interest expense	16,148	9,361	47,707	22,539
Other expense (income), net	195	(434)	1,186	(95)
Loss before income taxes	(28,325)	(42,224)	(106,274)	(186,885)
Income tax expense (benefit)	9,375	(2,959)	23,932	10,245
Net loss	(37,700)	(39,265)	(130,206)	(197,130)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(44,605)	(55,961)	(155,383)	(194,978)
Net income available (loss attributable) to common stockholders	$ 6,905	$ 16,696	$ 25,177	$ (2,152)

Comparison of Three Months Ended September 30, 2017 and 2016

Revenue

	Three Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Revenue:			
Operating leases and incentives	$ 45,909	$ 33,394	$ 12,515
Solar energy system and product sales	29,230	7,868	21,362
Total revenue	$ 75,139	$ 41,262	$ 33,877

Operating Leases and Incentives. The $12.5 million increase was due in part to an $8.5 million increase in operating lease revenue as the total megawatts of solar energy systems placed in service under these long-term customer contracts increased 35%. In addition, SREC sales increased $4.0 million primarily driven by the increased solar energy systems in service.

Solar Energy System and Product Sales. The $21.4 million increase was primarily due to our increased focus on System Sales, which has resulted in a significant increase in solar energy systems placed in service under System Sales.

Operating Expenses

	Three Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$ 34,731	$ 39,268	$ (4,537)
Cost of revenue—solar energy system and product sales	22,168	6,468	15,700
Sales and marketing	9,808	8,617	1,191
Research and development	896	842	54
General and administrative	19,379	19,022	357
Amortization of intangible assets	139	342	(203)
Total operating expenses	$ 87,121	$ 74,559	$ 12,562

Cost of Revenue—Operating Leases and Incentives . The $4.5 million decrease was due in part to a $5.5 million decrease in non-capitalized compensation and benefits primarily due to decreases in installation and operations employee headcount as a result of lower installation volume and a $1.9 million decrease in facility, warehouse and other building costs. These decreases were partially offset by a $3.4 million increase in depreciation and amortization of solar energy systems due to the increase in the number of solar energy systems placed in service.

Cost of Revenue—Solar Energy System and Product Sales . The $15.7 million increase reflected the increase in the volume of System Sales.

Sales and Marketing Expense . The $1.2 million increase was primarily due to a $1.8 million increase in compensation and benefits resulting from an increase in inside sales, marketing and corporate sales employee headcount. This increase was partially offset by a $0.8 million decrease in pre-installation sales activities.

General and Administrative Expense . The $0.4 million increase was due in part to a $1.2 million increase in compensation and benefits primarily related to additional hiring of information technology employees.

Non-Operating Expenses

	Three Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Interest expense	$ 16,148	$ 9,361	$ 6,787
Other expense (income), net	195	(434)	629

Interest Expense. Interest expense increased $6.8 million primarily due to additional borrowings year over year.

Other Expense (Income), net . The $0.6 million change from other income to other expense was primarily due to unrealized net losses of $0.5 million related to our derivative financial instruments that were recognized during 2017.

Income Taxes

	Three Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Income tax expense (benefit)	$ 9,375	$ (2,959)	$ 12,334

The $12.3 million change from income tax benefit to income tax expense was primarily attributable to a $10.3 million decrease in income tax credits, a tax-effected $4.6 million reduced loss before income taxes, a $0.8 million reduced domestic production activities deduction, and $0.7 million of increased amortization related to the prepaid tax asset. These increases in income tax expense were partially offset by $4.0 million associated with the net tax effect of non-controlling interests and redeemable non-controlling interests.

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

	Three Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$ (44,605)	$ (55,961)	$ 11,356

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 are generally derived from the receipt of ITCs and tax depreciation under Internal Revenue Code Section 168(k). These tax benefits are primarily allocated to the investors and reduce the fund investors' tax capital account. The $11.4 million decrease in net loss attributable to non-controlling interests and redeemable non-controlling interests reflects lower volumes of solar energy systems installed and placed in service compared to the same period in 2016. Additionally, the decrease is due in part to a larger portion of our volumes being comprised of Solar Sales, for which we do not retain ownership.

Comparison of Nine Months Ended September 30, 2017 and 2016

Revenue

	Nine Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Revenue:			
Operating leases and incentives	$ 119,711	$ 80,033	$ 39,678
Solar energy system and product sales	81,537	13,363	68,174
Total revenue	$ 201,248	$ 93,396	$ 107,852

Operating Leases and Incentives. The $39.7 million increase was due in part to a $25.0 million increase in operating lease revenue as the total megawatts of solar energy systems placed in service under these long-term customer contracts increased 35%. In addition, SREC sales increased $11.4 million primarily driven by the increased solar energy systems in service, and revenue related to our lease pass-through fund arrangement increased $3.3 million as additional deferred ITC revenue was recognized.

Solar Energy System and Product Sales. The $68.2 million increase was primarily due to our increased focus on System Sales, which has resulted in a significant increase in solar energy systems placed in service under System Sales.

Operating Expenses

	Nine Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$ 103,564	$ 115,566	$ (12,002)
Cost of revenue—solar energy system and product sales	63,664	10,606	53,058
Sales and marketing	28,037	32,078	(4,041)
Research and development	2,687	2,218	469
General and administrative	60,259	60,006	253
Amortization of intangible assets	418	762	(344)
Impairment of goodwill	—	36,601	(36,601)
Total operating expenses	$ 258,629	$ 257,837	$ 792

Cost of Revenue—Operating Leases and Incentives . The $12.0 million decrease was due in part to a $23.1 million decrease in non-capitalized compensation and benefits primarily due to decreases in installation and operations employee headco unt as a result of lower installation volume. This decrease was partially offset by a $11.9 million increase in depreciation and amortization of solar energy systems due to the increase in the number of solar energy systems placed in service.

Cost of Revenue—Solar Energy System and Product Sales . The $53.1 million increase reflected the increase in the volume of System Sales.

Sales and Marketing Expense . The $4.0 million decrease was due in part to a $2.6 million decrease in marketing and brand awareness activities and a $2.1 million decrease in pre-installation sales activities. These decreases were partially offset by a $1.0 million increase in compensation and benefits resulting from an increase in inside sales, marketing and corporate sales employee headcount.

Research and Development Expense . The $0.5 million increase was primarily due to an increase in stock-based compensation expense resulting from forfeitures in the second quarter of 2016 that reduced stock-based compensation expense in nine months ended September 30, 2016.

General and Administrative Expense . The $0.3 million increase was due in part to a $4.7 million increase in compensation and benefits primarily related to additional hiring of information technology employees and a $3.9 million increase in stock-based compensation resulting primarily from forfeitures in the second quarter of 2016 that reduced stock-based compensation expense in the nine months ended September 30, 2016. These increases were partially offset by a $4.6 million decrease in legal and other costs related to the failed acquisition by SunEdison. Additionally, $2.2 million in costs were incurred in the second quarter of 2016 related to severance for senior management who left our company and other organizational changes during that period, and a $1.0 million fee was incurred to terminate and settle our commercial and industrial investment fund in the second quarter of 2016.

Impairment of Goodwill. An impairment charge of $36.6 million was recorded in 2016 to write off the entire value of goodwill as it was deemed to be fully impaired as of March 31, 2016.

Non-Operating Expenses

	Nine Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Interest expense	$ 47,707	$ 22,539	$ 25,168
Other expense (income), net	1,186	(95)	1,281

Interest Expense. Interest expense increased $25.2 million primarily due to additional borrowings year over year.

Other Expense (Income), net . The $1.3 million change from other income to other expense was primarily due to unrealized net losses of $1.5 million related to our derivative financial instruments that were recognized during 2017.

Income Taxes

	Nine Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Income tax expense	$ 23,932	$ 10,245	$ 13,687

The $13.7 million increase in income tax expense was primarily attributable to a tax-effected $28.2 million reduced loss before income taxes, a $5.9 million decrease in income tax credits, a $4.3 million reduced domestic production activities deduction, and $2.5 million of increased amortization related to the prepaid tax asset. These increases in income tax expense were partially offset by $13.9 million associated with the net tax effect of non-controlling interests and redeemable non-controlling interests, and a tax-effected $12.8 million associated with the goodwill impairment charge during 2016.

Net Loss Attributable to Non-Controlling Inter ests and Redeemable Non-Controlling Interests

	Nine Months Ended September 30,		$ Change
	2017	2016	2017 from 2016
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$ (155,383)	$ (194,978)	$ 39,595

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 are generally derived from the receipt of ITCs and tax depreciation under Internal Revenue Code Section 168(k). These tax benefits are primarily allocated to the investors and reduce the fund investors' tax capital account. The $39.6 million decrease in net loss attributable to non-controlling interests and redeemable non-controlling interests reflects lower volumes of solar energy systems installed and placed in service compared to the same period in 2016. Additionally, the decrease is due in part to a larger portion of our volumes being comprised of Solar Sales, for which we do not retain ownership.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents of $101.8 million, which consisted principally of cash and time deposits with high-credit-quality financial institutions. As discussed in Note 10—Debt Obligations and Note 12—Investment Funds, we do not have full access to a portion of our cash and cash equivalents. We finance our operations primarily from investment fund arrangements that we have formed with fund investors, from borrowings and from cash inflows from operations. Our principal uses of cash are funding our operations, including the costs of acquisition and installation of solar energy systems, working capital requirements and the satisfaction of our obligations under our debt instruments. 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. In addition, our investment funds and debt instruments impose restrictions on our ability to draw on financing commitments. If we are unable to satisfy such conditions, we may incur penalties for non-performance under certain investment funds, experience installation delays, or be unable to make installations in accordance with our plans or at all. Any of these factors could also impact customer satisfaction, our business, operating results, prospects and financial condition. 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 for at least the next 12 months, if necessary.

Sources of Funds

Investment Fund Commitments

As of October 31, 2017, we had raised 21 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.4 billion, which will enable us to install solar energy systems of total fair market value approximating $3.6 billion. The undrawn committed capital for these funds as of October 31, 2017 is approximately $106.9 million, which includes approximately $55.1 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 October 31, 2017, we had tax equity commitments to fund approximately 63 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $247.9 million.

Debt Instruments

Debt obligations consisted of the following as of September 30, 2017 (in thousands, except interest rates):

	Principal Borrowings Outstanding	Unused Borrowing Capacity	Interest Rate	Maturity Date
2017 Term loan facility	$ 201,446	$ —	6.0%	January 2035
2016 Term loan facility (1)	291,293	—	4.2	August 2021
Subordinated HoldCo facility	198,125	—	9.3	March 2020
Credit agreement	1,303	—	6.5	February 2023
Revolving lines of credit				
Aggregation facility (2)	100,000	275,000	4.5	September 2020
Working capital facility (3)	121,500	15,000	4.5	March 2020
Total debt	$ 913,667	$ 290,000		

(1) The interest rate of this facility is partially hedged to an effective interest rate of 4.0% for $263.9 million of the principal borrowings. See Note 11—Derivative Financial Instruments.
(2) The Aggregation facility was amended in March 2017. See Note 10—Debt Obligations.
(3) Facility is recourse debt, which refers to debt that is collateralized by our general assets. All of our other debt obligations are non-recourse, which refers to debt that is only collateralized by specified assets or our subsidiaries.

See Note 10—Debt Obligations for additional details regarding the debt facilities outstanding at September 30, 2017.

Revenue from Operations

In the three and nine months ended September 30, 2017 , we generated $45.9 million and $119.7 million in revenue from operating leases and incentives, which approximates cash inflow with the exception of $1.6 million and $4.8 million of operating lease revenue related to ITCs in our lease pass-through fund. Cash related to our solar energy systems sales is generally received prior to revenue recognition and we received $24.4 million and $83.4 million related to system sales for the three and nine months ended September 30, 2017. 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. From time to time, we also reimburse portions of fund investors' capital as a result of delays in the installation process and interconnection to the power grid of solar energy systems and other factors. We expect our capital expenditures to continue to increase as we continue to grow our business. 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.

Historical Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2017	2016
Net cash (used in) provided by:	(In thousands)	
Operating activities	$ (24,674)	$ (123,880)
Investing activities	(226,469)	(329,002)
Financing activities	256,312	473,706
Net increase in cash and cash equivalents	$ 5,169	$ 20,824

Operating Activities

In the nine months ended September 30, 2017, we had a net cash outflow from operations of $24.7 million. This outflow was primarily due to a $130.2 million net loss and a $63.0 million increase in prepaid tax assets. These outflows were partially offset by a $98.5 million noncash adjustment for deferred income taxes, a $44.7 million noncash adjustment for depreciation and amortization, a $16.3 million decrease in other current assets and a $9.5 million noncash adjustment for stock-based compensation.

Investing Activities

In the nine months ended September 30, 2017, we used $226.5 million in investing activities primarily due to $211.2 million in costs associated with the design, acquisition and installation of solar energy systems and an $18.7 million increase to restricted cash and cash equivalents due primarily to the requirements of the 2017 Term Loan Facility. These outflows were partially offset by $2.2 million in proceeds from state tax credits.

Financing Activities

In the nine months ended September 30, 2017, we generated $256.3 million from financing activities, of which $306.8 million was received in proceeds from long-term debt and $162.3 million was received in proceeds from investments by non-controlling interests and redeemable non-controlling interests into our investment funds. These proceeds were partially offset by repayments of long-term debt of $164.9 million, distributions to non-controlling interests and redeemable non-controlling interests of $33.8 million, and payments for debt issuance and deferred offering costs of $13.7 million.

Contractual Obligations

Our contractual commitments and obligations as of December 31, 2016 are laid out in the following table. Material changes that have occurred during the nine months ended September 30, 2017 are included in the footnotes to the table.

	Payments Due by Period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Long-term debt (1)	$ 6,469	$ 200,263	$ 563,856	$ 1,264	$ 771,852
Interest payments related to long-term debt (2)	37,777	60,826	23,122	175	121,900
Distributions payable to non-controlling interests and redeemable non-controlling interests (3)	16,176	—	—	—	16,176
Capital lease obligations and interest	5,751	5,358	477	—	11,586
Operating lease obligations	12,171	14,098	16,079	82,193	124,541
Total	$ 78,344	$ 280,545	$ 603,534	$ 83,632	$ 1,046,055

(1) Does not include additional borrowings and repayments during the nine months ended September 30, 2017, which resulted in a net $141.8 million increase in principal borrowings. These borrowings included the following activity: under the 2017 Term Loan Facility maturing in January 2035, we incurred a net $201.4 million of principal borrowings; under the Subordinated HoldCo Facility maturing in March 2020, we incurred a net $48.6 million in principal borrowings; under the Aggregation Facility, amended in March 2017 to mature in September 2020, we reduced principal borrowings by a net $87.0 million; under the Working Capital facility maturing in March 2020, we reduced principal borrowings by $15.0 million; and under the 2016 Term Loan Facility maturing in August 2021, we reduced principal borrowings by $6.2 million. For additional information, see Note 10—Debt Obligations.

(2) Does not include increases in interest payments related to changes in long-term debt during the nine months ended September 30, 2017, which for payments due in less than one year increased $22.5 million, payments due in one to three years increased $42.9 million, payments due in three to five years increased $26.9 million and payments due in more than five years increased $80.5 million.

(3) During the nine months ended September 30, 2017, distributions payable to non-controlling interests and redeemable non-controlling interests decreased by $4.5 million.

Off-Balance Sheet Arrangements

We include in our condensed 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

For a description of recent accounting pronouncements that we are evaluating, see Note 2—Summary of Significant Accounting Policies.

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 3. 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 September 30, 2017, we had cash and cash equivalents of $101.8 million. Our cash equivalents are 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 condensed consolidated financial statements.

As of September 30, 2017, interest on our floating-rate debt facilities accrued at a weighted-average rate of approximately 6.6%. A hypothetical 10% increase in the interest rates on our floating-rate debt facilities would have increased our interest expense by approximately $2.2 million for the nine months ended September 30, 2017.

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, our suppliers may raise the prices they charge us, which could harm our financial results.

Item 4. 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 September 30, 2017 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. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a list of our current legal proceedings, see Note 17—Commitments and Contingencies.

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 risk s 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 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 and commercial sources, such as banks and other lenders, 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, the lease payments for and the cost of our solar energy systems. We rely on investment funds in order to provide solar energy systems with little to no upfront costs to our customers under our PPAs and Solar Leases. We also rely on access to capital to cover the costs of our solar energy systems that are sold outright until the systems are paid for by our customers, whether by cash or through third-party financing arrangements. Certain of our financing arrangements are with fund investors who require particular tax and other benefits. 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 certain incentives or decreases in the associated benefits.

Moreover, potential investors seeking such tax-advantaged financing 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 Internal Revenue Service, or IRS, and the courts could reduce the willingness of fund investors to invest in funds associated with these solar energy system investments, or cause these investors to require a larger allocation of customer payments. It is not certain that this type of financing will continue to be available to us. If we are unable to establish new financing when needed, or upon desirable terms, to enable our customers' access to our solar energy systems, we may be unable to finance installation of our customers' systems, our cost of capital could increase or our liquidity could be constrained, any of which would have a material adverse effect on our business, financial condition, results of operations and prospects. As of October 31, 2017, we had raised 21 investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.4 billion, which will enable us to install solar energy systems of total fair market value approximating $3.6 billion. As of October 31, 2017, we had remaining residential tax equity commitments to fund approximately 63 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $247.9 million.

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 existin g 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 penaltie s 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 invest or's capital or pay the fund investor a non-performance fee. For example, during the year ended December 31, 2016 and the nine months ended September 30, 2017, we paid contractually agreed upon capital distributions of $2.7 million and $8.4 million to reim burse fund investors a portion of their capital contributions primarily due to a delay in solar energy systems being interconnected to the power grid and other factors.

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. 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 PPAs or Solar 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 most 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;
- the construction of additional electric transmission and distribution lines;
- 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 abi lity to reduce a customer's average cost of electricity by shifting load to off-peak times;
- changes in regulations by federal or state regulatory bodies that lower the cost of generating and transmitting electricity or otherwise reduce regulatory compliance costs for traditional utilities, or otherwise disadvantage residential solar energy providers relative to traditional utilities; and
- development of new energy generation technologies that provide less expensive energy.

A reduction in utility electricity costs would make PPAs or Solar Leases less economically attractive on a monthly basis and would increase the time to break-even for our Solar Sales customers. 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. In addition, from time to time we have increased our pricing in certain markets, which may negatively impact our competitiveness.

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. In addition, it is unclear what, if any, actions the current presidential administration in the United States may take regarding existing regulations and policies that place limitations on nuclear, coal and gas electric generation, and fossil fuel mining and exploration. Changes in such policies and regulations could increase the cost or decrease the benefits of solar energy systems, or reduce costs and other limitations on competing forms of generation, and 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. Other regulatory revisions that could impact the competitiveness of our product include moving from a retail rate to a time-of-use compensation mechanism, imposition of fixed demand or grid-service charges, or limitations on whether third-party owned systems are eligible for such programs. For example, the California Public Utilities Commission recently issued a decision that will transition residential rates over 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 changes such as these could have the effect of lowering the incentive for residential customers of 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 product. In addition, California has shifted to a time-of-use rate structure for all residential customers; Nevada and other jurisdictions are also developing time-of-use rate structures. A shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient or nonexistent could make our solar energy system offerings less competitive and reduce demand for our offerings. Several other states also use time-of-use rates. 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 ove r distributed energy resources 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, in California, investor owned utilities are allowed to impose a minimum $10 fixed charge on the monthly bill for residential customers that elect net mete ring and also impose new fees for interconnection and other non-bypassable charges. Such non-bypassable charges are being authorized by other public utilities commissions outside of California. Additionally, certain utilities in Arizona have approved incre ased 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. Specifically, in August 2017, the Arizona Corporation Commission adopted a settlem ent agreement between the Arizona Public Service Company and industry stakeholders under which demand charges based on a customer's maximum average rate of energy consumed during a specified interval will be imposed on residential customers under certain r ate schedules. In addition, the Nevada commission is currently considering increasing fixed charges to all residents in the state, including solar customers. These policy changes may negatively impact our customers and affect demand for our solar energy sy stems, and s imilar 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 o f 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 b usiness 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 or our ability to monetize them 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 or purchase, our solar energy systems, helping to achieve 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 or capacity allocations are exhausted or be reduced or terminated. These reductions or terminations often occur without warning. For example, the Arizona Department of Revenue has previously attempted to assess and collect property taxes in the past on rooftop solar energy systems such as ours, and other jurisdictions may attempt to assess and collect property taxes in the future. 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.

Substantially all of our solar energy systems installed to date have been eligible for ITCs 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. 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; 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 or an inability to continue to monetize such benefits in our financing arrangements, the rate of growth of installations of our residential solar energy systems and our ability to maintain such systems could be negatively impacted. In addition, future changes in existing law and interpretations by the IRS and the courts with respect to certain matters, including but not limited to, treatment of the ITC and our financing arrangements, the taxation of business entities and the deductibility of interest expense could affect the amount that fund investors are willing to invest, which could reduce our access to capital. 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. Moreover, if there is a reduction in the corporate tax rate, investors will place less value on accelerated depreciation, and will have less appetite for ITCs, which could also 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. An inability to finance solar energy systems through tax-advantaged structures; to realize or monetize depreciation benefits; to monetiz e or otherwise receive the benefit of rebates, tax credits, SRECs or other financial incentives; or to otherwise structure investment funds in ways that are both attractive to investors and allow us to provide desirable pricing to customers 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 ad versely 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, Hawaii, New Hampshire, New York, Texas and Utah. Utilities are proposing new and varied revisions to their net metering programs, with such proposals decided by the state public utilities commission. These revisions include capping the numbers of customers that can elect net metering within a utility service territory, imposing new fixed charges for grid service or interconnection, reducing the retail rate value of the net metered generation. In California, for example, customers within the service territory of San Diego Gas and Electric, Pacific Gas and Electric Company, and Southern California Edison Company, must take service on a new net metering successor tariff. For this new tariff, the California Public Utilities Commission largely uses the current net metering form with full retail compensation for exports, but allows 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. There are no caps under the new NEM successor tariff. Further, municipal utilities are generally not subject to the same state laws and public commission oversight as compared to investor owned utilities and may make drastic and abrupt changes. As we continue to expand into areas with municipal utilities, we may be subject to greater risk of regulatory uncertainty.

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' power grids, neither of which provides for compensation for exports at retail electricity rates.

In December 2016, the Arizona Corporation Commission decided to end traditional net metering and transition to a new distributed solar energy net metering compensation regime in which customers are paid for energy generated from solar energy systems located on their roofs pursuant to a resource comparison proxy methodology or avoided cost methodology. Each of these methodologies will yield a compensation rate that is less advantageous than was previously available to customers under the historical net metering regime, limited to a 10% step down in each utility's rate annually. The Arizona Corporation Commission has also adopted a settlement agreement between the Arizona Public Service Company and industry stakeholders under which demand charges based on a customer's maximum average rate of energy consumed during a specified interval will be imposed on residential customers under certain rate schedules. These changes reduce the value proposition for residential solar in Arizona as compared to residential solar under the traditional net metering regime.

In December 2016, Rocky Mountain Power submitted a request to the Utah Public Service Commission to request that the Commission implement new rates for net metered customers seeking interconnection. We, together with other parties and Rocky Mountain Power entered into a settlement agreement that was filed with the Utah Public Service Commission in August 2017. The settlement provides for (among other things): (1) an end to the current net metering program on November 15, 2017 and establishes a grandfathering period through 2035 for all customers enrolled in the program before such date; (2) a transition program through 2020 where customers will receive slightly less than the retail rate for their net metering credits through 2033; and (3) a new proceeding in front of the Utah Public Service Commission to study the value of rooftop solar based on the long-term benefits and costs of distributed energy systems. A decision from the Utah Public Service Commission approving the settlement agreement was issued in September 2017.

In July 2017, Nevada Power Company and Sierra Pacific Power Company submitted an application to the Nevada Public Service Commission proposing a change to the net metering program after the passage of the state Assembly Bill 405. The Nevada Public Service Commission conducted hearings on the matter in August and in September issued an order rejectin g the Nevada Power Company and Sierra Pacific Power Company proposal. The Commission affirmed that AB 405 provides for monthly netting and established clarity on the tranche classifications for the monthly net excess generation compensation credits. The Co mmission is reviewing additional details of the Nevada Power Company and Sierra Pacific Power Company proposal to revise rates, including the rates applicable to net-metered customers, in the context of Nevada Power's General Rate Case.

Additionally, in March 2017, the New York Public Service Commission issued an order transitioning from traditional net metering to a new value of distributed energy resource compensation regime in which customers are paid for energy generated from solar energy systems located on their roofs pursuant to a methodology based on the value of the distributed energy from such systems. After a transitional period through January 1, 2020 during which customers can still qualify for net metering (subject to a specified aggregate capacity amount availability for each utility), this value of distributed energy methodology could yield a compensation rate that is less advantageous than was previously available to customers under the historical net metering regime. Several other states plan to revisit their net metering policies in the coming years.

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, could negatively affect existing customers and lead to missed payments or defaults, and could adversely impact our business, results of operations and future growth.

Our business has benefited from the declining cost of solar panels, and our financial results may be harmed if the cost of solar panels increases in the future.

During previous years, 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. Although industry experts indicate that solar panel and raw material prices will generally continue to decline, it is possible they will not decline at the same rate as they have over the past several years or even increase. In addition, while the solar panel market has recently seen an increase in supply, growth in the solar industry and the resulting increase in demand for solar panels and the raw materials necessary to manufacture them may 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 a substantial majority of the solar panels used in our solar energy systems from manufacturers headquartered in China, however, most of the manufacturing now takes place in other Asian countries, such as Malaysia and Vietnam. Changes in governmental support or regulation in China or the other countries where these products are manufactured could affect our ability to purchase them on competitive terms, and access to specialized technologies could be restricted.

In addition, the U.S. government could impose additional tariffs on solar cells manufactured outside the United States or implement additional restraints on trade. 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, or the USITC, 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 U.S. government may also take broader actions to protect U.S. based manufacturers against imports of solar cells manufactured outside the United States, such as in southeast Asia, Japan, Germany and South Korea. Recently, a U.S.-based solar manufacturer, which filed for bankruptcy in mid-April, filed a petition under Section 201 of the Trade Act of 1974 for global safeguard relief with the USITC, and requested imposition of tariffs on solar cells and the establishment of a minimum price for solar modules imported into the United States. In May 2017, the USITC accepted the request to review the impact of imported crystalline silicon cells and modules on domestic solar manufacturers. The petition seeks steep tariffs and minimum price guarantees on certain solar energy equipment and modules manufactured anywhere outside the United States, including materials that we rely on to provide a cost-competitive product to our customers. On September 22, 2017, the USITC determined by unanimous vote that an injury had

occurred. On October 31, 2017, the USITC issued three remedy recommendations and is expected to formally send them to the President of the United States by November 13, 2017. While the recommended tariff and q uota remedies are less severe than the remedies requested by petitioners, if approved by the President, any of the proposals could have a significant impact on our costs, business and prospects. The President will have 60 days to decide whether to adopt an y of the remedies proposed by the USITC or the President may impose another remedy, including import volume limits, and other means, which could increase the prices of solar cells and modules from most countries outside the United States, and not just Chin a and Taiwan. In recent negotiations for future deliveries, we have seen some panel providers increase their prices. We believe this is the result of uncertainty regarding the outcome of the USITC investigation that has created higher near-term demand and pricing for solar cells and modules from U.S. purchasers seeking to acquire inventory in advance of any potential government action. If we are required to pay higher prices, accept less favorable terms or purchase solar panels or other system components fr om alternative, higher-priced sources, or if supply is otherwise constrained, our costs would increase significantly and it may not be economical to serve certain markets, which would adversely affect our operating results and growth prospects.

Failure of anticipated growth in System Sales to materialize as planned could negatively impact our operating results and cash flows.

Beginning in late 2015, we began offering to customers in select markets the option to purchase solar energy systems as System Sales. We historically offered our solar energy systems through our PPAs or Solar Leases. System Sales allow us to expand our product offerings and to enter into additional markets, such as those that prohibit third-party ownership of distributed solar energy systems or that lack a favorable net metering policy. While System Sales represent a relatively small portion of our cumulative installations, we expect them to continue to grow. Industry analysts have indicated that the number of customer-owned solar energy systems has increased significantly relative to third-party ownership in certain markets and that solar energy system sales are expected to account for a larger percentage of total residential solar installations in the future. Continued increases in the variety and availability of third-party loan financing products to consumers and outright solar energy system purchases could further facilitate this growth. It is not certain that we will successfully execute our strategy to increase System Sales. If customer preferences or the residential solar energy market continue to shift toward solar energy system sales, and we are not successful in our efforts, we may lose market share, which could have an adverse effect on our business, operating results and growth prospects. To the extent we are unsuccessful in our efforts to sell solar energy systems, or to work with third parties to finance those systems for our customers, our operating cash flows would be negatively affected and our business and growth prospects would be adversely affected.

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. 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 the next few 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 power grid. While the prospect of such curtailment is somewhat speculative, particularly in the residential sector, 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 fu ture.

We have incurred operating losses since our inception. We incurred net losses of $242.5 million and $253.3 million for the years ended December 31, 2016 and 2015 and $130.2 million for the nine months ended September 30, 2017. We expect to continue to incur net losses from operations as we finance our operations, manage our installation, engineering, administrative, sales and marketing staffs, and implement internal systems and infrastructure to support our growth. Failure to grow at a sufficient rat e 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;
- maximizing the benefits of rebates, tax credits, SRECs and other available incentives; 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. We also sell to customers through our inside sales team but continue to find greatest success using our direct sales channel. In addition, we recently began to establish a retail sales channel and entered into a sales dealer agreement with Vivint, Inc., and we may sell through additional distribution channels in the future. 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, the internet 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. Recently, one of our competitors announced that it would terminate its direct-selling efforts. If customers demonstrate a preference for other distribution channels, we may need to reduce our direct-selling efforts. We are also vulnerable to changes in laws related to direct sales and marketing that could impose additional limitations on unsolicited residential sales calls and may impose additional restrictions. If additional laws affecting direct sales and 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 developing other sales channels, our financial condition, results of operations and growt h prospects could 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. Sales personnel are attracted to direct-selling by competitive earnings opportunities and direct-sellers typically compete for sales personnel by providing a more competitive earnings opportunity than that offered by the competition. We believe 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 investment. 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. There is significant competition for sales talent in our in dustry, and from time to time we may need to adjust our compensation model to include such components. These adjustments could adversely impact our operating results and financial performance.

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

- 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 negative ly 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. 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 may experience increased 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 are 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, Florida, South Carolina, Utah and Los Angeles, California, laws have been interpreted to either prohibit the sale of electricity pursuant to our standard PPA or regulate entities making such sales, in some cases, such laws have led residential solar energy system providers to use leases in lieu of power purchase agreements. In other states, neither leases nor power purchase agreements are permissible or commercially feasible. Changes in law and 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, 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 that we and our fund investors claim the ITC based on the fair market value of our solar energy systems. Scrutiny by the IRS with respect to fair market value determinations has increased industry-wide in recent years. The IRS is conducting an audit of our 2015 corporate tax return as well as one of our investment funds. We are not aware of any other audits or results of audits related to our appraisals or fair market value determinations of any of our investment funds. 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.

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 low levels. It is likely that interest rates will continue to rise in the future, 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 that can be redirected to the fund investor such that it achieves the targeted return. These forgone distributions or capital contributions will generally occur if the fund investor has not achieved its targeted return prior to the target flip date of the investment fund. None of our investment funds have reached their target flip date at the current time and we anticipate that the first target flip date in which a fund investor is required to have achieved its targeted return is 2020.

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 and, in some cases, may be impacted by changes in tax law.

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 ta ke other actions that could restrict our ability to pursue our business strategies.

Since September 2014, we have entered into six debt facilities through which we had $913.7 million in aggregate principal amounts outstanding and up to $290.0 million of unused borrowing capacity remaining as of September 30, 2017. These debt 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. Additionally, our ability to make scheduled payments depends on our operating performance, which is subject to economic, financial, competitive and other factors that may be beyond our control. 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 September 30, 2017, approximately 39% of our cumulative installations and 29% of our 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.

Residential solar energy is an evolving market, which makes it difficult to evaluate our prospects.

The residential solar energy industry is constantly evolving, which makes it difficult to evaluate our prospects. We cannot be certain if historical growth rates reflect future opportunities or whether growth anticipated by us or industry analysts will be realized. Any future growth of the residential solar energy market and the success of our solar energy systems depend on many factors beyond our control, including recognition and acceptance of the residential solar energy market by consumers, the pricing of alternative sources of energy, a favorable regulatory environment, the continuation of expected tax benefits and other incentives and our ability to provide our solar energy systems cost-effectively. If the markets for residential solar energy do not develop at the rate we expect, our business may be adversely affected.

Additionally, 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, we may be unable to accurately forecast our future performance and to invest accordingly.

We have previously identified a material weakness in our internal control over financial reporting relating to inadequate 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 .

We previously reported a material weakness in internal control over financial reporting for the years ended December 31, 2015 and 2014 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. 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 implemented a number of measures to remediate the material weakness de scribed above, and based on these measures, management tested the internal control activities and found them to be effective and concluded that the material weakness described above was remediated as of December 31, 2016. However, if in future periods we i dentify 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 au dit 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 expressin g 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 w eaknesses or other control deficiencies may be identified.

If we are unable to 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.

We face competition from traditional regulated electric utilities, from less-regulated third party energy service providers, other solar companies 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, including the ability to initiate proceedings before state public utility commissions to reduce the value of net metering. 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. Some of these competitors have a higher degree of brand name recognition, differing business and pricing strategies, and greater capital resources than we have, as well as extensive knowledge of our target markets. In addition, as System Sales become a more significant part of our business, we face increasing competition from other national and local solar energy companies who sell solar energy systems and may offer a broader suite of companion products. We believe the solar industry is becoming increasingly commoditized, and if we are unable to offer differentiated products, establish or maintain a consumer brand that resonates with homeowners or compete with the pricing offered by our competitors, our sales and market share position may be adversely affected.

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 where there is heightened or increasing demand for solar energy products. 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, i f 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. Additionally, we continually monitor our workforce requirements in the markets in which we operate. Any workforce reductions in markets where sales volume does not support the number of installation and other personnel could in turn 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 whic h 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 req uired to pay higher compensation than we anticipate, these greater expenses may also adversely impact our financial results and the growth of our business.

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, including any re-roofing services provided under our contracts. 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, damage for which we are liable, 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 interco nnection 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 licens ing 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, o r 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.

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 and 2016, Trina Solar Limited, Yingli Green Energy Americas, Inc. and JinkoSolar Holding Co., Ltd. accounted for a substantial majority of our solar photovoltaic module purchases. In the nine months ended September 30, 2017, Trina Solar Limited, JinkoSolar Holding Co., Ltd. and Hanwha Q CELLS Ltd. accounted for substantially all of our solar photovoltaic module purchases. In 2015, 2016 and the nine months ended September 30, 2017, 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, and may require us to obtain the approval of our financing partners in order to utilize new products. These issues could harm our business or financial performance.

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 growing 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.

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. In addition, the U.S. government has imposed tariffs on solar cells produced and assembled in China and Taiwan, and it is unclear what actions the current U.S. presidential administration may take with respect to existing and proposed trade agreements, or restrictions on trade generally. The existing tariffs, and any new tariffs, duties or other restraints, 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.

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, result ing 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 growing industry, the true extent of these fluctuations may have been masked by our historical 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 PPAs is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather, such as 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 and interconnect to the power grid 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.

The profitability and residual value of our solar energy systems during and at the end of the associated term of the PPA or Solar Lease may be lower than projected today and adversely affect our financial performance and valuation.

We maintain ownership of the solar energy systems that we install under our PPAs or Solar Leases. We 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, typically for a nominal fee, if customers need to replace or repair their roofs. However, customer fees 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 or purchase the system. 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. We also face other factors that could increase the costs or diminish the production of a solar energy system, such as unanticipated damage or malfunctions, animal interference and weather-related matters. 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. If the profitability or the residual value of the systems is lower than expected, this could materially impair our future operating results and estimated retained value.

Compliance with occupational safety and health requirements and best practices can be costl y, 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 approximately 750 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 in connection with a PPA or Solar Lease during the length of the term of our customer contracts, which is typically 20 years. We also agree to provide a workmanship warranty and maintain the solar energy systems we sell to customers for a period of 10 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 long estimated useful life 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 ou r 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 PPA or Solar Lease 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 are damaged in the event of a natural disaster beyond our control, such as an earthquake, tornado, 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 or other insurance policies with industry standard coverage and limits approved by the investor's third-party insurance advisors to hedge against 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 our solar energy systems or other products, such as batteries or electric vehicle chargers, were to injure someone, we could be exposed to product liability claims. In addition, it is possible that our products could injure our customers 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, increase our insurance rates, 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, could 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 Yelp and SolarReviews. If we cannot manage our hiring and training processes to avoid or minimize these issues to the extent possible, our reputation may be harmed and our ability to attract new customers would suffer.

Given our relationship with our sister company Vivint and the similarity in our names, customers may associate us with any problems exper ienced 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 ar e 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 operations and 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 growth in recent periods with the cumulative capacity of our solar energy systems growing from 681.1 megawatts as of December 31, 2016 to 820.3 megawatts as of September 30, 2017, and we intend to continue to expand our business 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. For example, we have announced entry into several new states during 2017 and we continue to expand our offerings in existing markets. In addition, we have begun to offer complementary products such as batteries and electric vehicle chargers in some markets. Our operations, growth and expansion require significant time and effort on the part of our management team as it is required to maintain and expand our relationships with customers, suppliers and other third parties and attract new customers, suppliers and financing, 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 operations and 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, meet our investment fund commitments 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 our operations and growth could adversely impact our business and reputation.

Expansion into new markets could be costly and time-consuming. Historica lly, 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 believe that in the future we could 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 choose to pursue opportunities in additional markets and are unable to successfully compete in such markets, 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 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 are highly dependent on the efforts and abilities of the principal members of our senior management team, and the loss of one or more key executives could have a negative impact on our business.

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. Our compensation structure, which includes salary, bonus, equity and benefits components, is important to our ability to attract, retain and motivate our employees. If we do not provide adequate compensation, or appropriately structure our equity grants, we may be unable to maintain our current workforce or attract new talent in the future, and 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 Securities Exchange Act of 1934, as amended, or 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 are 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 a ffect 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 to the public or remove the source code of our proprietary software. 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 remove the software. 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 PPAs 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 growing industry, the true extent of these fluctuations may have been masked by our historical 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 the operation of our business and our revenues and increase our expenses.

Our ability to accurately charge our customers for the energy produced by our solar energy systems depends on our ability to monitor our customers' solar energy systems. Our customer agreements require our customers to maintain a broadband internet connection so that we may receive data regarding solar energy system 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. When a customer's solar monitoring system is not properly communicating with us, we 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 PPA or a Solar Lease. The terms of PPAs and Solar Leases 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 September 30, 2017, the average FICO score of our customers was approximately 760. However, as we grow our business, the risk of customer defaults could increase. Our reserve for this exposure is estimated to be $3.0 million as of September 30, 2017, and our future exposure may exceed the amount of such reserves. While we do not currently extend credit to customers interested in System Sales, many of those customers are interested in financing the purchase of a solar energy system. While these customers may seek third-party financing through their own lender or a lender with whom we have a relationship, if they do not have sufficient credit to qualify for a loan, they may be unable to purchase a solar energy system. This could reduce our potential customer pool and limit the growth of our System Sales.

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 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 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 enacted statutes in 2015 and 2016 that require increased disclosures and acknowledgements in any agreement governing the financing, sale or lease of distributed energy systems, such as our solar energy systems. Comparable legislation was enacted in New Mexico, Florida, Nevada and California in 2017. These new laws are specific to the solar industry, and require changes to our contracts and processes. Some of the new laws have been enacted along with other changes to state law that further impact the residential solar industry. To the extent that other states enact further regulations applicable to our industry, we may be required to expend additional resources in order to modify our businesses practices to meet these regulatory requirements.

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 interprete d 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 Bureau, 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. In 2016, the FTC held a public workshop on competition and consumer p rotection issues relating to the residential solar industry, and we expect additional regulatory scrutiny of the industry at the state and federal levels. Additionally, in March 2017, we received notice that the New Mexico Attorney General's office intends to file an action against us and our officers alleging violation of state consumer protection statutes. While we believe our standard sales practices and policies comply with all applicable laws and regulations, if federal, state or other local regulators or agencies were to initiate an investigation against us or enact regulations relating to the marketing of our products to residential consumers, responding to such investigation or complying with such regulations could divert management's attention to ou r business, 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.

As another example, the Fannie Mae Selling Guide imposes certain requirements on the terms of solar power purchase agreements and leases as a condition of eligibility of home mortgages for sale to or securitization by Fannie Mae. These requirements include responsibility for damage to the real property, insurance requirements, and lender rights in the event of foreclosure. Such requirements, and possible future conditions impacting the ability of our customers to sell or refinance their homes impact the terms of our business, the terms on which we are able to obtain financing and could have an adverse effect on our business, financial condition and results of operations.

We cannot ensure that our sales force will comply with our standard practices and policies, as well as applicable laws and regulations. Any such non-compliance, or the perception of noncompliance, potentially could expose us to claims, proceedings, litigation, investigations, and/or enforcement actions 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 the laws, regulations and industry standards that apply to us.

Any unauthorized access to, or disclosure or theft of personal information or other proprietary 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 previously used certain shared information and technology systems with Vivint, and Vivint continues to store some of our historical data. We take certain steps in an effort to protect the security, integrity and confidentiality of the personal information and other proprietary and confidential 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.

We are also subject to laws and regulations relating to the collection, use, retention, security and transfer of personal information of our customers. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between one company and its subsidiaries. Several jurisdictions have passed new laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. One example of such self-regulatory standards to which we may be contractually bound is the Payment Card Industry Data Security Standard, or PCI DSS, which may affect any processes associated with handling credit card numbers. In the event we fail to be compliant with the PCI DSS, fines and other penalties could result. Complying with emerging and changing requirements may cause us to incur costs or require us to change our business practices. Any actual or alleged failure by us, our affiliates or other parties with whom we do business to comply with privacy-related or data protection laws, regulations and industry standards could result in proceedings against us by governmental entities or others, which could have a detrimental effect on our business, results of operations and financial condition.

A ny actual or perceived unauthorized use or disclosure of, or access to, any personal information or other proprietary or confidential information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our supplie rs 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 or to be believed to have occurred, 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 cou ld 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 unauthorized access to, or use or disclosure of, personal information. Finally, an y 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 examples, see Note 17—Commitments and Contingencies. While we intend to defend against these actions vigorously, the ultimate outcomes of these cases are presently not determinable as they are in preliminary phases. 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 has provided us with certain information technology support for our business in the past. If we do not successfully implement and operate our own information technology systems, our operations may be disrupted and our operating results could be harmed.

We have historically relied on the technical support of Vivint to run our business. We used certain of Vivint's information technology and infrastructure until we transitioned off in July 2017. The implementation of our new software support systems required significant management time, support and cost, and there are inherent risks associated with implementing, developing, improving and expanding our core systems. As these systems are relatively new, we cannot be sure that they have been implemented without any errors or bugs. 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. Furthermore, while we have transitioned to our own systems, some of our historical data may continue to reside on Vivint's systems. Any failure or significant downtime in our own systems following the transition period and any difficulty in separating our information technology services or obtaining our historical data 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 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 or divestitures;
- 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. In August 2017, we entered into a sales dealer agreement with Vivint. Under this agreement, each party will act as a non-exclusive dealer for the other party to market, promote and sell each other's products. The agreement has a two-year term, which will be automatically renewed for successive one-year terms unless written notice of t ermination is provided by one of the parties to the other no less than 90 days prior to the end of the then current term. The products, territories and consideration that is payable by each party to the other is determined in accordance with the agreement. There can be no assurances regarding the number of sales and installations of our products that Vivint will be able to generate, or the number of leads that we will be able to generate. In addition, as we work to expand our customer opportunities and prod uct offerings through our relationship with Vivint, our business and results of operations may be adversely affected by factors that affect Vivint's business and our relationship. Pursuant to the terms of a Non-Competition Agreement we have entered into wi th Vivint, as amended, we and Vivint each have agreed not to solicit 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 until the termination of the sales dealer agreement. The commitment not to solicit each other's employees lasts for 180 days after such employee finishes employment with us or Vivint. Historically, we had recruited a significant number of our sales personnel from Vivint. This agreement may require us to obtain personnel from other sources, and any inability to do so may limit our ability to continue scaling our business if we are unable to do so. Notwithstanding the above, a number of sales rep resentatives work for both Vivint and us. To the extent there is any confusion concerning the relationship between us and Vivint with respect to the products and services we offer and the products and services of Vivint, such sales representatives could ex pose us to increased claims, proceedings, litigation and investigations by consumers and regulatory authorities. In addition, having sales representatives who work for both Vivint and us could distract such sales representatives, impact the effectiveness o f our sales force, and potentially increase the turnover of our existing sales representatives who may feel displaced by the addition of Vivint sales representatives to our sales force.

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 some of the agreements we have 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 on October 1, 2014 to September 30, 2017, the closing price of our common stock has ranged from a high of $16.01 to a low of $2.22. 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, including any new tariffs or trade regulations that affect our ability to import goods at attractive prices or at all;
- additions or departures of key personnel;
- 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;
- the failure of securities analysts to cover our common stock;
- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us, our stockholders or our employees, including sales of equity awards granted to our employees to cover tax withholding obligations;
- litigation or disputes involving us, our industry or both;
- major catastrophic events;

- general economic and market conditions; and
- potential acquisitions.

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. For example, we have been 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. That lawsuit was dismissed, and its dismissal was recently affirmed on appeal to the Court of Appeals for the Second Circuit. We may also 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" until the earliest of (1) December 31, 2019, (2) the last day of the first fiscal year in which our annual gross revenue exceeds $1.1 billion, (3) 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 (4) the date on which we have issued more than $1 billion in non-convertible debt securities 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 September 30, 2017, we had 114.8 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, we have granted and expect to continue to grant equity awards to our directors and employees as additional compensation in an effort to align their interests with those of our stockholders. Approximately 2.7 million shares of our common stock are reserved for future issuance under our Long-Term Incentive Plan, and these shares will issue, vest and be immediately tradable without restriction on the date that our Sponsor and its affiliates achieve specified returns on their invested capital.

Further, equity awards for 10.0 million shares of common stock remained o utstanding as of September 30, 2017, with 1.7 million of those shares being vested and exercisable as of September 30, 2017. Additionally, "sell-to-cover" transactions are utilized in connection with the vesting and settlement of equity awards that are gra nted to our employees so that shares of our common stock are sold on behalf of our employees in an amount sufficient to cover the tax withholding obligations associated with these awards. As a result of these transactions, a significant number of shares of our stock may be sold over a limited time period in connection with significant vesting events. For example, during the month of May 2017, approximately 3.5 million restricted stock units settled, which increased the volume of our shares that would otherw ise have been sold during that time.

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. In October 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, and we registered an additional 12.9 million shares in March 2017. Under these registration statements, subject to the satisfaction of applicable vesting periods, the shares of common stock issued upon exercise of outstanding options and vested RSUs 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 investors to sell shares of our common stock.

Our Sponsor and its affiliates control us and their interests may conflict with ours or investors' in the future.

As of September 30, 2017, 313 Acquisition LLC, which is controlled by our Sponsor and its affiliates, beneficially owned approximately 72% 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 investors of an opportunity to receive a premium for 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 investors.

We have elected to take advantage of the "controlled company" ex emption 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 2016 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 6. Exhibits

10.1	Amendment No. 1 to Non-Competition Agreement, dated as of August 16, 2017, by and between Vivint Solar, Inc. and Vivint, Inc.
10.2 †	Sales Dealer Agreement, dated as of August 16, 2017, by and between Vivint Solar Developer, LLC and Vivint, Inc.
31.1	Certification of Chief Executive Officer, pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
†	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.
*	The Certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Vivint Solar, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements 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: November 7, 2017

/s/ David Bywater

David Bywater
Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2017

/s/ Dana Russell

Dana Russell
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

Exhibit 10.1

NON-COMPETITION AGREEMENT
AMENDMENT NO. 1

This NON-COMPETITION AGREEMENT AMENDMENT NO. 1 (this " ***Amendment*** ") is entered into as of August 16, 2017, by and between VIVINT SOLAR, INC., a Delaware corporation (together with its successors and permitted assigns, " ***Vivint Solar*** "), and VIVINT, INC., a Utah corporation (together with its successors and permitted assigns " ***Vivint*** "). Each of Vivint Solar and Vivint may also be referred to herein individually as a " ***Party*** ", and collectively as the " ***Parties*** ".

RECITALS

WHEREAS, Vivint Solar and Vivint are affiliate business entities, under the common control and ownership of 313 Acquisition, LLC, a Delaware limited liability company.

WHEREAS, the Parties had entered into a Non-Competition Agreement dated September 30, 2014, by and between the Parties (collectively, the " ***Non-Competition Agreement*** ") to set out certain restrictive covenants of each Party.

WHEREAS, the Parties wish to amend the existing obligations under the Non-Competition Agreement.

WHEREAS, the Parties also desire to extend the term of the non-solicitation obligations under the Non-Competition Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants, agreements and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions . Any capitalized term used but not defined in this Amendment will have the meaning set forth for that term in the Non-Competition Agreement or the Master Framework Agreement, dated September 30, 2016, by and between the Parties (the " ***Master Framework Agreement*** ").

2. Non-Competition **.** Section 2 of the Non-Competition Agreement shall be deleted in its entirety and the other provisions of the Non-Competition Agreement that relate to such Section 2, including, without limitation, Sections 5 and 6, shall be amended hereby to delete the applicable references, and provisions solely applicable to, Section 2, *mutatis mutandis* .

3. Non-Solicitation . Section 4 of the Non-Competition Agreement is hereby deleted in its entirety and replaced with the following:

> " Term . This Agreement will become effective on the Effective Date, and will continue until the expiration of the "Sales Term" as that term is defined in the Sales Dealer Agreement dated as of August 16, 2017 between Vivint and Vivint Solar Developer, LLC (the " ***Term*** ")."

4. Continuation . This Amendme nt will apply and be effective only with respect to the provisions of the Non-Competition Agreement specifically referred to herein. Except as otherwise set forth in this Amendment, the Non-Competition Agreement will continue in full force and effect in accordance with its terms.

5. Master Framework Agreement . This Amendment is governed by the Master Framework Agreement, including, without limitation, the provisions of Sections 4 (Confidentiality) and 6 (Miscellaneous) of the Master Framework Agreement .

[*SIGNATURE PAGES FOLLOW*]

IN WITNESS WHEREOF, the Parties have executed this Non-Competition Agreement Amendment No. 1 as of the date first written above.

VIVINT SOLAR:

VIVINT SOLAR, INC.,
a Delaware corporation

By: /s/ David Bywater
Name: David Bywater
Title: Chief Executive Officer

[SIGNATURE PAGES CONTINUE ON FOLLOWING PAGE]

VIVINT:

VIVINT, INC.,
a Utah corporation

By: /s/ Alex J. Dunn
Name: Alex J. Dunn
Title: President

[SIGNATURE PAGE]

Certain portions of this document have been omitted pursuant to a request for Confidential Treatment and, where applicable, have been marked with "*" to indicate where omissions have been made. The confidential material has been filed separately with the Securities and Exchange Commission.**

Exhibit 10.2

SALES DEALER AGREEMENT

This SALES DEALER AGREEMENT (this "***Agreement***") is effective as of August 16, 2017 ("***Effective Date***"), by and between VIVINT SOLAR DEVELOPER, LLC, a Delaware limited liability company ("***Vivint Solar***"), and VIVINT, INC., a Utah corporation ("***Vivint***"). Buyer and Seller are referred to herein individually as a "***Party***," and collectively as the "***Parties***".

RECITALS

WHEREAS, Vivint is in the business of selling, designing, installing, servicing, and maintaining smart home products and services described more fully below; and

WHEREAS, Vivint Solar is in the business of selling, designing, installing, servicing, and maintaining residential rooftop solar systems described more fully below;

WHEREAS, Vivint and Vivint Solar, Inc. (an affiliate of Vivint Solar) entered into a Marketing and Customer Relations Agreement dated September 30, 2014, as amended November 30, 2016, ("***Marketing Agreement***") pursuant to which Vivint and Vivint Solar, Inc. engaged in various cross-marketing and other potential customer and customer-focused efforts.

WHEREAS, the Parties desire to set forth terms and conditions under which each Party will pay certain fees for products and services sold in connection with this Agreement; and

WHEREAS, the Vivint and Vivint Solar have independently determined that the transactions contemplated by this Agreement are on terms that are not materially less favorable than what would have been obtained in a comparable transaction with an unrelated third-party to the other Party for the sales generated.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Definitions, Term and Termination

1.1 Definitions and Rules of Interpretation. Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings set forth in Exhibit A, and the Rules of Interpretation set forth in Schedule 1 shall apply to this Agreement, unless in any such case the context requires otherwise.

1.2 Term. Unless earlier terminated pursuant to its terms, the initial term of this Agreement shall commence on the Effective Date and shall continue until the second (2nd) anniversary of the Effective Date ("***Initial Term***"). The Initial Term shall automatically renew for successive one (1)-year periods (each, a "***Renewal Term***" and together with the Initial Term, the "***Term***"), unless either this Agreement is terminated pursuant to its terms, or a Party receives written notice from the other Party no less than ninety (90) days prior to the end of the Initial Term or a Renewal Term, as applicable, specifying that the sending Party is declining to renew this Agreement.

*** DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND FILED SEPARATELY WITH THE COMMISSION.

1.3 Certain Termination Rights

1.3.1 For Change of Control . Either Party may terminate this Agreement upon ninety (90) days prior written notice to the other Party in connection with its or the other Party's change of control. " ***Change of Control*** " means the sale of all or substantially all the assets of a Party; any merger, consolidation or acquisition of a Party with, by or into another corporation, entity or person; or any change in the ownership of more than fifty percent (50%) of the voting capital stock of a Party in one or more related transactions.

1.3.2 In a Renewal Term . After the Initial Term, notwithstanding anything to the contrary in Section 1.2, either Party may terminate this Agreement for convenience upon no less than ninety (90) days' prior written notice to the other Party.

1.3.3 Termination for Cause . Either Party may terminate this Agreement in the event of a breach by the other Party of any term or condition of this Agreement where such breach is not cured within thirty (30) days of receiving written notice from the non-breaching Party (or where the breaching Party has not begun good faith efforts to remedy the breach for cases where the breach cannot reasonably be cured within thirty (30) days).

1.3.4 Termination for Extended Force Majeure Events . A Party may terminate this Agreement due to an ongoing Force Majeure Event affecting its or the other Party's performance under this Agreement during the Initial Term in accordance with Section 17.3 .

2. Appointment and Dealer Program

2.1 Appointment . Each Party hereby appoints the other to act as its Dealer in accordance with the terms and conditions of this Agreement, and each Party hereby accepts such appointment, in each case on a non-exclusive independent basis, with authority to market, promote and sell the Products of the other Party to potential customers in the Territory during the Term, solely in compliance with applicable Laws and all requirements under this Agreement for selling such other Party's respective Products (including, but not limited to, licensing and insurance requirements). As a Dealer, neither Party will have authority to market, promote, sell or take any other actions with respect to the other Party's Products outside of the Territory. Either Party may, in its sole discretion, directly or through an unaffiliated third-party sell its own Products to any other Person, whether or not such Person is in, or outside of, the Territory.

2.2 Volume Commitments . In performing its obligations as a Dealer under this Agreement, neither Party will be subject to any volume commitment with respect to such Party's sale of a Primary Party's Products under this Agreement.

2.3 Dealer Authority . Except for the rights and licenses granted in this Agreement and absent express written authorization from each Party's Chief Executive Officer or President, as applicable. Neither Party, acting in its capacity as Dealer, has authority, and will not represent or imply that it has any authority, to enter into any contract or agreement in the name of or binding upon the Primary Party. Neither Party, acting in its capacity as Dealer, shall have authority to make any warranty or representation concerning the performance, quality or characteristic of any Products of the Primary Party except as otherwise offered by such Primary Party or as may be contained in Sales Materials. All agreements with Customers for Products shall be directly between the Primary Party and such Customer, and the Party acting as Dealer shall not be a party, including a third-party beneficiary, to said agreement and expressly denies any rights, privileges or entitlements thereunder.

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2.4 Vivint Products . Vivint Solar will sell the Vivint Products using the form of agreement that Vivint has provided its sales representatives for use in each respective jur isdiction within the Territory. Vivint Solar will use commercially reasonable efforts to provide new Joint Customers, who execute an SPA, with the option to finance both Parties' Products through Vivint Solar's financial product offerings, subject to Vivin t Solar's Financing Partners' approval.

2.5 Vivint Solar Products . Vivint will sell the Vivint Solar Products using the form of agreement that Vivint Solar has provided for its dealers use in each respective jurisdiction within the Territory and the Customer Agreement(s) outlined in Exhibit G for each Territory; provided, however, that financed SPA's, PPA's, and Lease's shall be subject to Vivint Solar's Financing Partners' approval. Vivint will sell the Vivint Solar Products using the form of agreement that Vivint Solar has provided to Vivint for use in each respective jurisdiction within the Territory. Vivint will be permitted to sell an Add-On Solar System in compliance with Vivint Solar's then current Add-on Solar System sales policy as may be updated from time to time; *provided, however* , that Vivint Solar provides Vivint with prior written notice of any such updates.

2.6 Independent Contractors . The Parties are independent contractors, and no agency, partnership, joint venture or employer-employee relationship is intended or created by this Agreement. Neither Party shall have (a) power to obligate or bind the other Party nor (b) any power or authority other than those powers and authority that are expressly conferred upon it by this Agreement, unless specifically granted by the other Party in writing. Without limiting the generality of the foregoing, no authority is granted to either Party for the following:

(a) Make or discharge any contract in the name of the other Party;

(b) Make, alter, modify, or waive any term or condition stated in any contracts, advertisements or any type of the other Party's approved form;

(c) Make, accept, or endorse notes or otherwise incur any liability on behalf of the other Party, or to expend, or contract for the expenditure of the funds of the other Party;

(d) Extend the time for the payment of monies due to the other Party;

(e) Institute, prosecute, or maintain any legal proceedings in connection with any matter pertaining to the other Party's business;

(f) Use an advertisement, advertising materials, marketing materials or other marketing devices, including Internet and web-based devices, for the purpose of marketing the Product until obtaining the written consent and approval of the other Party; and

(g) Offer any contract terms which deviate from the other Party's approved form of Customer Agreement.

2.7 Dealer Representatives . As a Dealer, each Party will be solely responsible for engaging its Representatives to perform its duties hereunder. Each Party shall require its Representatives to acknowledge and agree to follow the Ethics Standards of the other Party, respectively attached hereto as Exhibit F , prior to selling, soliciting, or offering to sale such other Party's Products.

3. Sales Channels

3.1 Sales Channels . As a Dealer, each Party will only allow its Representatives, which must be employees of such Party, to sell Products of its Primary Party through the: (a) direct-to-home sales channel; (b) retail sales channel; and (iii) inside sales channel, in each case subject to the requirements set out in this Section 3 . Neither Party is permitted to use sub-dealers and subcontractors in connection with reselling Products of its Primary Party. For the avoidance of doubt, there is no restriction on selling a Party's own Primary Products through any sales channel or using any sub-dealers, subcontractors or distributors in connection therewith.

3.2 Inside Sales Channel . When engaging in the inside sales channel in performing Dealer services hereunder, each Party and its Representatives shall do so in accordance with its Primary Party's respective Policies and Procedures.

3.3 Direct-to-Home Sales Channel . When engaging in the direct-to-home sales channel in performing Dealer services, each Party and its Representatives shall do so in accordance with its Primary Party's respective Direct to Home Code of Conduct as set forth in Exhibit C , attached hereto and incorporated herein by reference.

3.4 Retail Sales Channel . When acting as a Dealer, a Party must obtain its Primary Party's prior written approval before selling or reselling, as applicable, such Primary Party's Products in any retail sales channels.

4. Dealer Responsibilities and Representations .

4.1 Dealer Obligations . During the Term of this Agreement, each Party, when acting as a Dealer hereunder, agrees that it will:

(a) Comply at all times with Applicable Law, its Primary Party's Policies and Procedures, including the requirement to collect all Customer Materials, and obtaining all Licensing Requirements to perform Dealer services in the Territory.

(b) Conduct its business and represent its Primary Party in a professional, ethical, legal and businesslike manner in such a manner that its actions or the actions of its personnel will not jeopardize such Primary Party's relationships with their communities of operation and with their Customers and Prospective Customers.

(c) Comply at all times with the terms of any agreement between its Primary Party and its Financing Partners, to the extent that such terms have been communicated by such Primary Party, as applicable.

(d) Provide, for each Representative in writing, to the Primary Party the (i) full name, (ii) email address, and (iii) sales office, prior to allowing such Representative to perform any Dealer services on behalf of such Primary Party.

(e) Require each Representative to provide personal identifying information to the Primary Party, in writing, including but not limited to the Representative's; (i) full name, (ii) physical address, (iii) primary and secondary email address, (iv) date of birth, (v) telephone number, (vi) location of specific Dealer office, and (vii) any other information required to register the Representative with the Primary Party and its

*** DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND FILED SEPARATELY WITH THE COMMISSION.

Financing Partner's, prior to allowing such Representative to perform any Dealer services on behalf of such Primary Party.

(f) Require each Representative to submit a background check authorization to its Primary Party (the form of such authorization to be provided by such Primary Party) prior to allowing such Representative to perform any Dealer services on behalf of such Primary Party.

(g) Not permit its Representatives to perform Dealer services on behalf of its Primary Party until such Primary Party has, in its sole discretion, determined the fitness and eligibility of each such Representative to render Dealer services on its behalf.

(h) Require each of its Representatives to: (i) comply with the Licensing Requirements; (ii) correctly identify themselves as employees of the Party acting as Dealer and never as an agent or contractor of its Primary Party; (iii) be trained on the terms and requirements of this Agreement, and the Policies and Procedures of both Parties; (iv) agree in writing to not violate the terms of this Agreement, the Policies and Procedures and Applicable Law; (v) maintain a polite, cooperative manner when dealing wi th any and all Customers and Prospective Customers; and (vi) be subject to deactivation of Dealer services upon any violation of the foregoing (without consent by or notice to its Primary Party), all other disciplinary actions against the Representative will be handled by its Primary Party.

(i) Assure that its Representatives have access to and are provided with sufficient Sales Materials, in each case only as approved by its Primary Party, to enable them to accurately and properly market and demonstrate such Primary Party's Products in the provision of Dealer services hereunder.

(j) Actively investigate and bring to a conclusion (which may include appropriate disciplinary action, including but not limited to termination of employment) any and all complaints regarding actions by the Party's Representatives which actions violate its or its Primary Party's Policies and Procedures or any of the terms of this Agreement.

(k) Notify the Primary Party immediately in writing of any Representatives that have been terminated or subject to any disciplinary action. Such Primary Party may, it is sole discretion, remove any such Representative's ability to sell, solicited, or offer to sale its Products.

4.2 Customer Agreement Submissions . Each Party, in its capacity as Dealer, on behalf of itself and its Representatives, represents and warrants to its Primary Party that at the time of submitting a Customer Agreement that:

(a) to such Party's knowledge, all information provided by the Customer as set forth therein (including all representations and warranties of the potential Customer) relating to the potential Customer will be true, correct and complete in all respects, and the potential Customer will meet the requirements of an Eligible Individual and all other applicable requirements set forth in the Policies and Procedures;

(b) such Customer Agreements will be duly executed and, assuming execution by the Primary Party, are enforceable against such consumer;

(c) the marketing, advertising, promotion and selling of the Products to the consumer in connection with such Customer Agreements did not violate this Agreement or any Applicable Law;

(d) no Event of Default has occurred and remains uncured;

(e) such Customer Agreements are free and clear of any and all liens, mortgages, pledges, security interests, r estrictions, prior assignments, encumbrances and claims of every kind or character, including the claims of any bank, creditor, or taxing authority;

(f) the submitting Party is not a party to any contract or agreement, oral or written, pursuant to which it has pledged or agreed to pledge, sell, exchange, transfer or dispose of, in any manner, any of its right, title or interest to such Customer Agreements; and

(g) it is not aware of any facts that would prevent the Eligible Individual from installing the Products, and has no reason to believe that such consumer will not proceed.

4.3 Dealer Complaints . Each Party, in its capacity as Dealer, will forward all complaints received from any third-party pertaining to its and its Representatives' Customer generation activities on behalf of the Primary Party, including, but not limited to, complaints received from consumers, the Better Business Bureau or any state or federal agency. Each Party will supply the Primary Party with copies of all such written complaints and provide a detailed summary of all oral complaints, including the complaining party's contact information. In the event that a Party is investigated or sued by any federal, state or local government entity or officeholder or consumer or group of consumers (class action) in connection with the marketing of Products or terms of this Agreement, it will immediately notify the Primary Party in writing upon receipt of notice of such an investigation or suit and that it will provide the Primary Party with a copy of such notice.

5. Primary Party Responsibilities and Representations .

5.1 Primary Party Obligations. During the term of this Agreement, each Party, in its capacity as Primary Party, will:

(a) Meet all applicable Licensing Requirements;

(b) At such times and at such intervals as may be mutually agreed upon between the Parties, provide the same marketing, sales and enrollment training to the other Party (or such individuals as the other Party may designate) as it does to its own internal sales managers;

(c) Provide training to the other Party's Representatives (or such individuals as such other Party may designate) with regards to the Primary Party's sales tools, product offerings and best practices;

(d) Establish form Customer Agreements to be utilized by the other Party for the sale of its Products;

(e) Be responsible for the billing and collection of all receivables resulting from the sale of its Products;

(f) Be responsible for the staffing, training and execution of installations and fulfillment of all Products; and

(g) Be responsible for the provision of all Products to be provided to Customers.

For the avoidance of doubt, Vivint shall perform the installation services for all Basic SmartHome Systems and SmartHome Systems sold and installed pursuant to this Agreement.

*** DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND FILED SEPARATELY WITH THE COMMISSION.

5.2 Complaint Resolution . Th e Primary Party shall be solely responsible for addressing and resolving any complaint lodged by any potential Customer, Customer, or third-party (including but not limited to the BBB, private attorney, or any state and/or federal investigative unit) where such complaint pertains to the operation, functionality, installation or maintenance or on-going servicing of such Party's Products. In the event the Primary Party is unable to resolve any such complaint and a lawsuit or other action is initiated, such P arty shall undertake, at its sole cost and expense, the defense of such action and shall be solely responsible/liable for any damages awarded therein. This provision and the duties assumed by the Primary Party hereunder shall not apply to any complaint ari sing from or relating to the conduct of the other Party pursuant to this Agreement. In the event the Primary Party receives any complaint arising from or relating to the conduct of the other Party, pursuant to this Agreement, such Primary Party shall noti fy the other Party, provide a copy of the complaint (if available) and provide such other Party any other information known to the Primary Party including, but not limited to, subscriber contact information.

6. Mutual Representations

Each Party represents and warrants to the other Party, as of the Effective Date, as follows:

6.1 Licensing Requirements . It meets all Licensing Requirements and will cooperate with the other Party (including inspection and auditing) to ensure compliance with applicable Licensing Requirements.

6.2 Organization . It is duly organized, validly existing, and in good standing under the Laws of the state of its organization or incorporation, as applicable.

6.3 Authority . It has full corporate power and authority to enter into this Agreement, to carry out its obligations under this Agreement and each Customer Agreement, and to consummate the transactions contemplated by this Agreement and each Customer Agreement. The execution, performance and delivery by it of this Agreement, the performance by it of its obligations under this Agreement and the consummation by it of the transactions contemplated herein have been duly authorized by all requisite corporate action on the part of it. This Agreement has been duly executed and delivered by it, and (assuming due authorization, execution, and delivery by the other Party) the Agreement constitutes a legal, valid, and binding obligation of it enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar Laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

6.4 Governmental Authorizations . No Governmental Approval is required on the part of it in connection with the execution, delivery and performance of this Agreement, except those which have already been obtained or which it anticipates will be timely obtained in the ordinary course of performance of this Agreement and before being required by Applicable Law.

6.5 No Conflicts; Consents . The execution, delivery and performance by it of this Agreement and the consummation of the transactions contemplated by this Agreement do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of its Organizational Documents; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to it; or (c) require the consent, notice or other action by any Person under any Contract to which it is a Party, except as expressly set forth in this Agreement. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to it in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement.

*** DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND FILED SEPARATELY WITH THE COMMISSION.

7. Customer Ownership, Cross-Selling , and CRM and Product Integration

7.1 Vivint Solar Rights . If Vivint Solar sells its Primary Products directly to a Customer, Vivint Solar will have the exclusive right to upsell Vivint's Products to that same Customer for thirty (30) days following the installation of the Vivint Solar Primary Products. Vivint will not contact any Customer that purchases Vivint Solar's Primary Products directly from Vivint Solar during the above prescribed period, provided , however , that either Party may contact a Joint Customer to upsell their respective Primary Products. Vivint Solar will have the exclusive right to progress all active accounts in its sales pipeline and Vivint will not contact active Customers until such Customer is either canceled or hibernated in accordance with Exhibit H .

7.2 Vivint Rights . If Vivint sells its Primary Products directly to a Customer, Vivint will have the exclusive right to upsell Vivint Solar's Products to that same Customer for thirty (30) days following the installation of the Vivint Primary Products. Vivint Solar will not contact any Customer that purchases Vivint's Primary Products directly from Vivint during the above prescribed period, provided , however , that either Party may contact a Joint Customer to upsell their respective Primary Products. Vivint will have the exclusive right to progress all active accounts in its sales pipeline and Vivint Solar will not contact active Customers until such Customer is either canceled or hibernated in accordance with Exhibit H .

7.3 CRM Integration . Each Party will create a record in its customer relationship management (" ***CRM System*** ") systems to indicate when it has sold its own Products directly to a Customer in order to gain the exclusive contact rights set forth in Section 7.1 and Section 7.2 , respectively. The Parties will use commercially reasonable efforts to coordinate their respective CRM Systems in order to track the progression of such exclusive contract rights. The Parties will cooperate in good faith to ensure that each Prospective Customer submitted to one Party by the other Party in its capacity as Dealer is linked to such other Party in the Primary Party's CRM Systems.

7.4 Sales Tools . When acting as Dealer, each Party will only use its Primary Party's sales tools (*e.g.* , NEO and Sales Genie) to create Customer accounts, run credit checks, execute Customer Agreements, and sell the Products of such Primary Party (" ***Sales Tool*** "). Neither Party will use a third-party external application to create Customer accounts, run credit checks, execute Customer Agreements, and sell the Products of its Primary Party.

7.5 Technology Developments and Inventions . In the event that either Party creates any Inventions in performing the CRM System and Product integration work required to provide the services contemplated hereunder, the ownership of such Inventions will be subject to the following:

7.5.1 Pre-Existing Intellectual Property Rights . Notwithstanding anything else contained in this Section 7.5 , each Party shall retain ownership of all Intellectual Property Rights in Inventions: (a) developed solely by such Party prior to the Effective Date; (b) developed by such Party wholly unrelated and not arising out of this Agreement; or (c) derived from Confidential Information of that Party (" ***Pre-Existing Intellectual Property Rights*** ").

7.5.2 CRM and Product Integration Developments . All Inventions relating to such efforts described in this Section 7.5 that a Party creates (" ***CRM and Product Integration Developments*** ") shall be owned by that Party. Each Party will promptly disclose all CRM and Product Integration Developments to the other Party in writing as they occur, and for all purposes hereunder such Inventions shall be deemed the Confidential Information of the Party that created such Invention.

7.5.3 License to CRM and Product Integration Developments . For all CRM and Product Integration Developments, the Parties will, in good faith, evaluate whether to grant a license to t he other Party for each such CRM and Product Integration Development, and if so, proceed to negotiate such license on a case-by-case basis.

7.6 CMR Availability . Each Party will ensure that its CRM System and Sales Tool remain operational and available to receive and provide updates from both Parties' Representatives at least ninety-nine (99%) of the time, less scheduled maintenance.

8. Contracting and Payment Procedures .

8.1 Customer Acquisition by Dealer . Each Party, in its capacity as Dealer, will use the same Customer onboarding security and verification processes that are currently in place, or implemented from time-to-time, with customers of its own Primary Products (e.g., PCCF questions, on-boarding phone call, customer email verification, etc.) when soliciting Prospective Customers of its Primary Party's Products.

8.2 Customer Onboarding by Primary Party . Each Party, in its capacity as a Primary Party, will use commercially reasonable efforts to work with the Prospective Customers to complete: (a) execution of a Customer Agreement or other required documentation with the Prospective Customer; and (b) the collection of any initial payments or customer payment information required under the Customer Agreement. Upon the successful completion of all items set forth in this subparagraph, the Prospective Customer will be considered a " ***Customer*** " under the terms of this Agreement. Until a Primary Party has accepted a Customer Agreement from a Prospective Customer for Products, no "sale" shall be deemed to have occurred hereunder.

8.3 Customer Relationship . Each Party, in its capacity as a Primary Party, shall control all shipments, allocations, billings, collections, adjustments and compromises of accounts that relate to any of its Products sold or agreed to be sold.

8.4 Customer Payments . All Prospective Customers identified by a Party to its Primary Party shall be notified by such Party that payment is to be made directly to the Primary Party under the terms of the Customer Agreement or as provided under the Customer Agreement.

8.5 Conditions on Dealer Fee Payments . The Dealer Fees described in Section 12 will only be paid to a Party if: (a) such Party is in material compliance with the terms of this Agreement, and (b) such compensation is in compliance with all Applicable Laws. Each Party, in its capacity as Dealer, will be responsible for any and all expenses that it incurs including, but not limited to, rentals, transportation facilities, remuneration of any and all employment related expenses or costs, postage, administration fees, license fees, and all other agency expenses of whatever nature. The conduct by each Party of its business will be at its own sole cost, credit, risk, and expense. The Parties agree that no compensation will be due hereunder if its payment will violate any Applicable Law. The Parties agree that no compensation, or portion thereof, will violate Applicable Law.

9. Roll-Out Plan

9.1 Initial Roll-Out Plan . The Parties will collaborate in good faith to develop a roll-out plan setting out the Territory in which each Party will act as a Dealer of its Primary Party's Products (" ***Roll-Out Plan*** "). The Roll-Out Plan will be contingent on each Party's fulfillment of the Licensing Requirements in the Territory.

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9.2 Territory Expansion . Once a ZIP code has been mutually approved as part of the Roll-Out Plan, that ZIP code is deemed to form part of the Territory. Neither Party will be required to act as a Dealer in an appro ved and available part of the Territory if such Party determines, in its sole discretion, that the Licensing Requirements that must be met in order to for Dealer to offer Products in such part of the Territory are prohibitive in nature. Prior to a Party's qualification as a Dealer to resell the other Party's Products in that state, the terms of Schedule 8 of the Marketing Agreement will continue to apply with respect to the resale of Primary Party's Products by Dealer in that state.

10. Sales Materials .

10.1 Primary Party Sales Materials . Each Party, in its capacity as Primary Party, will supply the other Party with copies of all Sales Materials used to market its Products, generate Prospective Customers or make sales. Each Party will only use Sales Materials for its Primary Party's Products that have been approved by the Primary Party. Neither Party will rely on script approval as an indication that scripts are legally sufficient and each Party will be solely responsible for ensuring that any scripts it uses in providing Dealer services hereunder will comply with all Applicable Laws.

10.2 Dealer Materials . Any materials other than Primary Party provided Sales Materials that a Party uses, acting in its capacity as Dealer, when communicating with Customers or Prospective Customers regarding its Primary Party's Products (" ***Dealer Materials*** ") must be consistent with the Sales Materials and approved, in writing, in advance by its Primary Party. Each Party will, at all times, only use and utilize Dealer Materials in strict compliance with (a) the written consent to such use provided by its Primary Party; and (b) all other guidelines set by its Primary Party for the appearance, content or use of Dealer Materials, including those set forth in the Policies and Procedures. All approvals relating to Sales Materials must be obtained in writing from a Primary Party's Chief Marketing Officer, Vice President of Marketing or equivalent officer. Each Party, in its capacity as Primary Party, will use commercial reasonable efforts to review all submitted Dealer Materials within forty-eight (48) hours.

10.3 Announcements . The Parties agree that all marketing materials, communication plans, and joint statements that reference both Parties shall be reviewed and approved in writing by both Parties' prior to being released.

11. Trademark License .

11.1 License . During the term of this Agreement, each Party (" ***Licensor*** ") grants to the other (" ***Licensee*** ") the right to use the trademarks, marks, and trade names that Licensor may adopt from time to time (" ***Trademarks*** ") solely in connection with the performance of the activities that are permitted by this Agreement.

11.2 Use of Trademarks . To the extent that a Party utilizes any Trademarks in any Dealer Materials, the Dealer Materials must be approved in writing in advance by the applicable Primary Party in accordance with the terms of Section 10.2 . The Primary Party shall have the right at all reasonable times to inspect Dealer Materials and advertising concerning such Primary Party's Trademarks and Intellectual Property Rights to insure compliance with the foregoing requirements. Each Party reserves the right to amend, modify or rescind any specifications and quality standards relating to its Trademarks and other Intellectual Property Rights.

11.3 No Alteration . Neither Party will alter or remove from its Primary Party's Products (or their packaging or documentation), or alter any of its Primary Party's trademarks, trade names, logos, patent or copyright notices, or other notices or markings, or add any other notices or markings to such Primary Party's Products (or their packaging or documentation).

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11.4 Trademarks Standards . A Party's Trademarks must only be assoc iated with the highest quality, and the other Party's use thereof must comply with all reasonable specifications, quality standards, and cobranding requirements set by its Primary Party, the Policies and Procedures, or other standards approved in writing b y such Primary Party. Neither Party will engage in marketing practices that would detract from its Primary Party's Trademarks.

12. Dealer Fees and Payments .

12.1 Dealer Fees . Each Party agrees to pay for sales and installation of Products generated by the other Party, acting in its capacity as Dealer, in accordance with an executed fee schedule in the form of Exhibit B , attached hereto (all such fees being " ***Dealer Fees*** "). The Parties agree to review the Dealer Fees on an annual basis or upon request from either Party, by providing the other Party with thirty (30) days' notice, such request shall not be made more than twice per calendar year. For the avoidance of doubt, Vivint Solar will not earn any Dealer Fees for sales of Basic SmartHome Systems, nor will it pay any commissions to its Representatives for such sales.

12.2 Product Report . Commencing in the calendar month immediately following the calendar month in which the Products are installed, by the third (3rd) Business Day of each calendar month, each Party, in its capacity as Primary Party shall deliver, by the third (3rd) business day of each calendar month, to the other Party a report that specifies: (a) each Product, sold by such other Party as Dealer, that Primary Party has installed during the prior calendar month; and (b) each Product, sold by such other Primary Party as Dealer, that the Primary Party has cancelled during the prior calendar month, if such cancellation occurred within the cancelation periods described in Section 12.3 .

12.3 Payments . Payment of Dealer Fees shall be made as follows:

12.3.1 For Vivint Smart Home accounts sold by Vivint Solar Representatives, one week following installation.

12.3.2 For Vivint Solar accounts sold by Vivint Representatives (i) the Permit Fee the week following permit submitted and (ii) the Installation Fee the week following installation and electrically complete.

12.3.3 For each Basic SmartHome System sold by Vivint Solar Representatives, Vivint Solar shall pay Vivint directly an amount that is mutually agreed upon, in writing, by each Party's Chief Executive Officer or President, as applicable, which amount shall be paid the week following installation.

12.3.4 Vivint Solar may deduct from the Dealer Fees an amount equal to the Dealer Fees that were previously paid to Vivint for Customers whose account is cancelled prior to receiving Permission to Operate (" ***PTO*** ") from their utility, only within the first twelve (12) months after installation of the Solar System.

12.3.5 Vivint Solar may deduct from the Dealer Fees an amount equal to the Permit Fees that were previously paid to Vivint for Customers whose account is: (i) cancelled prior to installation; (ii) not installed within 120 days of the Permit Payment date; and (iii) not installed within 60 days of the original install scheduled date.

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12.3.6 Vivint may ded uct from the Dealer Fees an amount equal to the Dealer Fees that were previously paid to Vivint Solar for Customers who cancel their subscription to Vivint Products within the first nine (9) months of activation.

12.3.7 Vivint shall refund, either directly or by way of setoff from future Dealer Fee payments to Vivint Solar by Vivint, an amount equal to (a) one thousand dollars ($1,000.00) for each Basic SmartHome System that is uninstalled from a customer's home within the first thirty (30) days from the date of installation or (b) five hundred dollars ($500.00) for each Basic SmartHome System that is uninstalled from a customer's home between thirty (30) days and six (6) months from the date of installation. The Parties may further deduct from the Dealer Fees additional overrides associated with the cross-hiring of each Parties respective Representatives, in each case only as agreed upon by the Parties in writing.

12.4 Basic Smarthome Pricing . Vivint Solar will not apply any mark up in excess of Vivint Solar's cost, inclusive of applicable financing fees, for each Basic Smart Home System sold and installation.

12.5 Variable Pricing . When available, the Primary Party will permit the Dealer to participate in its variable pricing options (" ***Variable Pricing*** ") to sell the Products. If the Dealer participates in Variable Pricing, then the Dealer Fees shall be automatically adjusted pursuant to the Primary Parties Policies and Procedures governing Variable Pricing. The Primary Party will communicate such Policies and Procedures to the Dealer prior to the Dealer participating in Variable Pricing.

12.6 Vivint Solar Sales Concierge . Vivint Solar, when acting as the Primary Party, will offer Vivint's fulltime, year-round Dealer Representatives (" ***Fulltime Representative*** ") the option to participate in Vivint Solar sales concierge services (" ***VS Sales Concierge*** "). Each Fulltime Representative who elects to participate in VS Sales Concierge will notify Vivint Solar, in writing, and will agree to pay the VS Sales Concierge Fee, as set forth and defined in Exhibit B , as a direct reduction to the Dealer Fee amount for each Solar System sold and installed by the Fulltime Representative; provided, however, that Vivint Solar agrees to waive such VS Sales Concierge Fee for all Vivint Representatives that achieve Vivint Solar's franchise level production. For the avoidance of doubt, seasonal, summer, other non-year around Dealer Representatives will not be permitted to participate in VS Sales Concierge.

12.7 Payment Discrepancy . To the extent a Party believes there is a discrepancy or error in its Primary Party's calculation of any Dealer Fees allegedly due to it for any given month, such Party will provide notice in writing to its Primary Party that it disputes the amount alleged to be owed and the Parties will use commercially reasonable efforts to resolve the dispute prior to the date that the payment is due. If the dispute is the result of a disagreement about the number of Customers alleged to have been generated by a Party in its capacity as Dealer, corrections shall be made based upon documentation acceptable to the Primary Party, in its sole discretion, showing the number of Customers generated through such Party's performance of Dealer services hereunder.

12.8 Preferred Dealer . Each Party agrees that the Dealer Fees payable by such Party hereunder will be at least as favorable as compared to the fees payable to such Party's other sales dealers in the applicable Territory, in the same channel, that provide substantially similar volume, and based on substantially similar terms, conditions, and commitments as provided for herein. In the event that either Party enters into any subsequent agreement with an applicable dealer (in the applicable Territory, in the same channel, that provides substantially similar volume, and based on substantially similar terms, conditions, and commitments, as provided for herein) that provides for fees that are more favorable than those contained herein, such Party will (a) notify the other Party promptly of such arrangement and (b) offer to the other Party the same dealer fees in the applicable

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Territory, in the same channel, based on substantially similar terms, conditions, and commitments, as such other dealer.

13. Confidentiality . Section 4 of the Master Framework Agreement dated September 30, 2014 between Vivint and Vivint Solar, Inc. (" ***Master Framework Agreement*** ") will apply to the activities of the Parties, their agents, employees and Representatives in the performance of this Agreement.

14. I **ndemnification** .

14.1 Indemnification by Vivint . Except to the extent directly caused by the negligence or willful misconduct of Vivint Solar, and without limiting any other agreement, Vivint hereby agrees to defend, pay, indemnify, and hold Vivint Solar (and its Representatives, subsidiaries, and other affiliates, other than Vivint and all direct and indirect subsidiaries of APX Parent Holdco, Inc.) and its subcontractors harmless from and against any and all claims, demands, proceedings, judgments, and other liabilities of every kind, and all reasonable expenses incurred in investigation and resisting the same (including reasonable attorneys' fees), resulting from or in connection with all third Person Actions arising from or relating to: (i) the negligence or willful misconduct of Vivint, Vivint's R epresentatives, subsidiaries or subcontractors, or any third-Person performing services on behalf of Vivint under this Agreement (" ***Vivint Related Person*** "); (ii) any breach of this Agreement by Vivint or a Vivint Related Person; (iii) any breach of the terms of an agreement between Vivint Solar and its Financing Partners caused by Vivint, but only to the extent such terms have been communicated in writing by Vivint Solar to Vivint; or (iv) the failure by Vivint or a Vivint Related Person to comply with Applicable Law.

14.2 Indemnification by Vivint Solar. Except to the extent directly caused by the negligence or willful misconduct of Vivint, and without limiting any other agreement, Vivint Solar hereby agrees to defend, pay, indemnify, and hold Vivint (and its Representatives, subsidiaries, and other affiliates, other than Vivint Solar and all direct and indirect subsidiaries of Vivint Solar, Inc.) and its subcontractors harmless from and against any and all claims, demands, proceedings, judgments, and other liabilities of every kind, and all reasonable expenses incurred in investigation and resisting the same (including reasonable attorneys' fees), resulting from or in connection with all third Person Actions arising from or relating to: (i) the negligence or willful misconduct of Vivint Solar, Vivint Solar' s Representatives, subsidiaries or subcontractors, or any third-Person performing services on behalf of Vivint Solar under this Agreement (" ***Vivint Solar Related Person*** "); (ii) any breach of this Agreement by Vivint Solar or a Vivint Solar Related Person; (iii) any breach of the terms of an agreement between Vivint and its Financing Partners caused by Vivint Solar , but only to the extent that such terms have been communicated in writing by Vivint to Vivint Solar; or (iv) the failure by Vivint Solar or a Vivint Solar Related Person to comply with Applicable Law.

Indemnification Process

. If either Party seeks indemnification under this Section 14 , then that Party will promptly notify the indemnifying Party in writing of the Action for which indemnification is sought, but the failure to give such notice will not relieve the indemnifying Party of its obligations under this Agreement except to the extent that the indemnifying Party was actually and materially prejudiced by that failure. The indemnifying Party will have the right to select counsel and control the defense and settlement of the Action, but the indemnified Party may, at its option and expense, participate and appear on an equal footing with the indemnifying Party. The indemnifying Party may not settle the Action without the prior written approval of the indemnified Party, which approval will not be unreasonably withheld, conditioned or delayed.

14.4 Advance Payment of Expenses . The indemnifying Party will pay, as they are incurred in advance of the final disposition of any Action for which indemnification is sought under this Section 14 , expenses actually and reasonably incurred by the indemnified Party in respect of that Action; provided , however , that expenses of defense need not be paid as incurred and in advance where a court of competent jurisdiction has decided that the

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indemnified Party is not entitled to be indemnified pursuant to this Agreement. The indemnified Party hereby agrees and undertakes to repay such amounts advanced if it is ultimately dete rmined that the indemnified Party is not entitled to be indemnified by the other Party pursuant to this Agreement.

14.5 Insurance . During the Term and for a period of one (1) year thereafter, each Party shall, at its own expense, maintain and carry in full force and effect (a) all types and amounts of insurance required by Applicable Law, (b) workers' compensation and employers' liabilities insurances in amounts not less than one million dollars ($1,000,000) per occurrence and two million dollars ($2,000,000) in the aggregate, and (c) general liability insurance in amounts not less than one million dollars ($1,000,000) per occurrence and two million dollars ($2,000,000) in the aggregate. Such insurances shall be held with financially sound and reputable insurers.

15. Limitation of Liability . NEITHER PARTY WILL HAVE ANY LIABILITY TO THE OTHER PARTY UNDER THIS AGREEMENT FOR COMPENSATORY, PUNITIVE, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOSS OF PROFITS), REGARDLESS OF THE CIRCUMSTANCES UNDER WHICH THOSE DAMAGES AROSE, EVEN IF ADVISED OF THE POSSIBILITY OF THOSE DAMAGES. THE MAXIMUM LIABILITY OF EITHER PARTY UNDER THIS AGREEMENT, INCLUDING WITH RESPECT TO THE PERFORMANCE OR BREACH OF THIS AGREEMENT, WHETHER IN CONTRACT, IN TORT (INCLUDING NEGLIGENCE AND S TRICT LIABILITY) OR OTHERWISE, WILL NOT EXCEED GREATER OF FIVE MILLION DOLLARS ($5,000,000) OR THE DEALER FEES PAID TO THAT PARTY UNDER THIS AGREEMENT IN THE 12 MONTHS PRIOR TO THE EVENT GIVING RISE TO THE CLAIM IRRESPECTIVE OF THE NATURE OF THE CLAIM, WHE THER IN CONTRACT, TORT, WARRANTY OR OTHERWISE. THE LIMITATIONS CONTAINED IN THIS SECTION 15 WILL NOT APPLY WITH RESPECT TO: (A) ANY BREACH BY A PARTY OF THE CONFIDENTIALITY PROVISIONS OF THE MASTER FRAMEWORK AGREEMENT ; (B) LIABILITY ARISING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF A PARTY (INCLUDING LIABILITY ARISING FROM DAMAGE TO PERSONAL PROPERTY OR THE DEATH OR INJURY OF ANY PERSON CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF A PARTY); OR (C) A PARTY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 14.

16. Data and Personally Identifiable Information .

16.1 Personally Identifiable Information . All personally identifiable information regarding individual Customers, gathered by a Party, acting in its capacity as Dealer, or provided by a Primary Party, pursuant to this Agreement is the property of the Primary Party and its Customer, and is considered Confidential Information. In performing Dealer services, each Party will comply with all Laws applicable to the management and security of personally identifiable information to ensure that such personally identifiable information, is not disclosed or distributed by any person or entity in violation of the terms of this Agreement or any Applicable Law. In addition, in the event a Primary Party engages in payment card transactions in connection with orders for any other services requiring access to or receipt of information relating to credit card payment processing for subscribers, such Primary Party shall comply with the Payment Card Industry Data Security Standard (" PCI ") requirements. Each Party acknowledges that in addition to gathering such information for purposes of this Agreement, its Primary Party also gathers personally identifiable information for its own business operations. Nothing set forth herein shall be interpreted or construed so as to restrict a Party's ability to conduct its other business operations.

16.2 Product Data . As between the Parties, each Party will own all data and information generated by its Products (" ***Product Data*** "). To the extent permitted under Applicable Law, both Parties hereby grants to the other Party a non-exclusive, royalty-free license to internally use its Product Data for the sole purpose of improving the customer experience and functionality of such other Party's Products. For the avoidance

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of doubt, neither Party will be permitted to resell or otherwise use the Product Data licensed from the other Party for any purpose other than as expressly contemplated by this Section 16.2 .

16.3 Customer Consents . Each Party will incorporate broad customer consent language into its Customer Agreement to allow for data sharing between the Parties to this Agreement. The Parties will incorporate a process for the Basic SmartHome System Subscriber to acknowledge that Vivint owns their Product Data and not Vivint Solar.

16.4 Prior Agreements . The Parties understand that either Party may have access to Customer and company data related to the other Party as a service provider under this Agreement or other agreements already in place between the Parties. The Parties agree that the terms and conditions pertaining to Product Data ownership under this Agreement supersede the terms related to Product Data ownership under all such prior agreements.

17. Default, Termination and Suspension

17.1 Events of Default . The following conditions, events and occurrences shall each be an " ***Event of Default*** " for all purposes hereunder:

17.1.1 A Party fails to make payment of any amount payable to the other Party when due under this Agreement, which failure continues for thirty (30) business days after receipt of written notice of such non-payment;

17.1.2 A Party fails to observe and perform any covenant, agreement or obligation under this Agreement not otherwise specifically addressed in this Section 17.1.2 and such failure is not cured within thirty (30) business days after receipt of written notice of such material breach or default from the other Party; provided that if such breach or default cannot be remedied with reasonable diligence within such thirty (30) business day period, so long as the breaching Party establishes by written notice to the other Party the additional time required, timely commences curing such material breach or default, and proceeds with reasonable diligence thereafter to prosecute such cure, then the period for such cure shall be extended for a reasonable period of time necessary to complete such cure not to exceed ninety (90) days;

17.1.3 A Party admits in writing its inability to, or is generally unable to, pay its debts as such debts become due;

17.1.4 A Party files a petition in bankruptcy, files a petition seeking reorganization, arrangement, composition or similar relief, or makes a general assignment for the benefit of creditors;

17.1.5 Any involuntary petition or proceeding for the purpose of bankruptcy, reorganization, liquidation, or dissolution is commenced against a Party, or any person seeks the appointment of a receiver, trustee or any similar person for a Party or its assets and either (i) that Party consents to any such proceeding or appointment, or (ii) such proceeding is not stayed, enjoined or dismissed within ninety (90) days (provided that Party is contesting such proceeding by appropriate means and in good faith);

17.1.6 If any representation or warranty made by a Party herein was materially false or misleading when made, and that Party fails to remedy such materially false or misleading representation or warranty within twenty (20) business days after receipt of written notice of the particulars of such materially false or misleading representation or warranty from the other Party.

17.2 Remedies for Event of Default

17.2.1 Reciprocal Remedies. Upon the occurrence of an Event of Default, unless a remedy is expressly provided in this Agreement as an exclusive remedy for such Event of Default, the non-defaulting Party may:

(a) terminate this Agreement;

(b) seek specific performance of the defaulting Party's obligations hereunder where monetary damages would be inadequate or as otherwise expressly permitted by this Agreement, including, without limitation, seeking an injunction or other specific performance;

(c) suspend performance under the Agreement until the defaulting Party cures such Event of Default; and

(d) seek any other legal or equitable remedy available to such non-defaulting Party under Applicable Laws, including, without limitation, suing for damages available under this Agreement that are not disclaimed or waived.

17.2.2 Remedies Cumulative. Any termination by the non-defaulting Party for the other Party's Event of Default shall be without prejudice to any other right or remedy the non-defaulting Party may have under this Agreement or at Law or in equity (including the remedy of contract damages), and no such remedy shall be exclusive of any other remedy except as otherwise expressly set forth herein. Rights and remedies under this Agreement are cumulative, unless expressly made an exclusive right or remedy.

17.2.3 Earned Commissions. In the event of any expiration, cancellation or termination of this Agreement (regardless of the reason(s) therefore or the Party initiating such termination) each Party, in its capacity as Dealer, shall be entitled to all Dealer Fees and other fees associated with any Customer submitted prior to such termination with all such Dealer Fees being paid according to the time-frames otherwise applicable as if there had been no termination of this Agreement up to a period of one (1) year following the expiration, cancellation, or termination of this Agreement.

17.2.4 No Release. Except as otherwise expressly set forth in this Agreement, the expiration, cancellation, or termination of this Agreement will not affect any rights of the Parties, or release a Party from, obligations of the Parties that accrued prior to such expiration, cancellation, or termination.

17.3 Termination for Force Majeure. If a Force Majeure Event affects the performance of the claiming Party for ninety (90) consecutive days, the non-claiming Party may terminate this Agreement upon not less than thirty (30) days' prior written notice to the Party claiming excuse on the basis of the Force Majeure Event. Termination of this Agreement due to a Force Majeure Event shall not relieve the Parties of their obligations arising prior to the onset of the Force Majeure Event. Subject to the foregoing sentence, such termination shall be deemed a "no fault" termination, and neither Party shall pay damages to the other Party for termination of this Agreement due to a Force Majeure Event.

18. Records, Audits, and Access.

18.1 Dealer Records. Each Party, acting in its capacity as Dealer, will prepare and maintain accurate books and records (" ***Records*** ") of: (a) all advertising, brochures, scripts, promotional and call handling materials that are used in connection with the sale and installation of its Primary Party's Products under this

Agreement; (b) the name and the last known address and telephone number for all current and former employees directly involved in performing Dealer services pursuant to this Agreement; and (c) documentation of the services performed sufficient to support the Dealer Fees paid thereto. Each Party will retain the Records required under this Section 18.1 for the later of two (2) years, or as otherwise required by law, following c ompletion or termination of any contract for Products.

18.2 Dealer Audit . Each Party, acting in its capacity as Primary Party (itself or through use of a duly authorized third-party representative), will have the right to audit the other Party's operations and Records and make copies of the Records at reasonable times, upon reasonable notice during normal business hours of such other Party for the purpose of ascertaining or confirming compliance with this Agreement or the accuracy of the invoices rendered by a Party to its Primary Party hereunder. Any claims or discrepancies disclosed as a result of such audit shall be resolved by the Parties as soon as reasonably practicable following completion of the audit.

19. Miscellaneous .

19.1 Integrated Agreement . This writing is an integrated Agreement and represents the entire understanding of the Parties relative to the subject matter described herein. No prior or contemporaneous agreements shall be enforceable if they materially alter, vary, or add to the terms of this Agreement. This Agreement may not be modified except by a signed and dated writing, executed by all Parties or their legal counsel. Each of the Parties agrees that no representation or promise not expressly contained in this Agreement has been made and further promises that they are not entering into this Agreement on the basis of any promise, representation, express or implied, oral or written, not otherwise contained herein.

19.2 Assignment . This Agreement may not be assigned or otherwise transferred, nor may any right or obligation hereunder be assigned or transferred by either Party without the consent of the other Party, which may not be unreasonably withheld, conditioned or delayed. Any permitted assignee shall assume all obligations of its assignor under this Agreement; provided , however , that either Party may assign this Agreement in the event of a merger, consolidation, or sale of all or substantially all of such Party's assets. This Agreement is binding upon the permitted successors and assigns of the Parties. Any attempted assignment not in accordance with this Section 19.2 shall be void.

19.3 Counterparts and Facsimile . This Agreement may be executed in separate counterparts and by facsimile, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart.

19.4 Severability . Each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under Applicable Law. But if any provision of this Agreement is held to be invalid, illegal or unenforceable under any Applicable Law or rule, the validity, legality, and enforceability of the other provision of this Agreement will not be affected or impaired thereby.

19.5 Modification. Amendment, Waiver or Termination . No provision of this Agreement may be modified, amended, waived or terminated except by an instrument in writing, signed by the Parties to this Agreement. No course of dealing between the Parties will modify, amend, waive, or terminate any provision of this Agreement, or any rights or obligations of any Party under or by reason of this Agreement.

19.6 Notices . Except as set forth in Section 10.2 , notices and other communications by either Party under this Agreement, including invoices, shall be deemed given when sent either by (a) personal delivery, (b) postage prepaid registered or certified mail, return receipt requested, (c) nationally recognized overnight courier service, or (d) confirmed facsimile or electronic transmission, in each case addressed to the applicable

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Party as set forth in Exhibit E , or to such other address as either of the Parties shall have provided to the other in writing pursuant to Section 19.7 .

19.7 Modifications to Notice Information . Either Party shall have the right to change the address or name of the person to whom such notices are to be delivered by notice to the other Party.

19.8 Governing Law . All matters relating to the interpretation, construction, validity, and enforcement of this Agreement shall be governed by the laws of the State of Utah, without giving effect to any choice of law provisions thereof and any action that refers or relates to the validity, interpretation, construction, performance, enforcement and remedies of or relating to this Agreement shall be held in Salt Lake County, Utah, unless agreed otherwise by the parties. All fees and costs (including reasonable attorneys' fees) incurred pursuant to the resolution of any dispute under this Agreement shall be allocated to the losing party.

19.9 Captions and Headings . The various headings or captions in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.

[Signature Page(s) to Follow]

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IN WITNESS WHEREOF, the part ies hereto have executed this Agreement by their duly authorized representative to be effective as of the date first set forth above.

VIVINT, INC.,
a Utah corporation

By: /s/ Alex J. Dunn
Name: Alex Dunn
Title: President

VIVINT SOLAR DEVELOPER, LLC,
a Delaware limited liability company

By: /s/ David Bywater
Name: David Bywater
Title: Chief Executive Officer

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EXHIBIT A

DEFINITIONS AND RULES OF INTERPRETATION

1. **Definitions** .

" ***Action*** " means any claim, action, cause of action, demand, lawsuit, inquiry, audit, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity, by or before any Governmental Authority, or any other arbitration, mediation or similar proceeding.

" ***Add-On Solar System*** " shall mean a Solar System installed (or to be installed) on a Customer's home, where the Customer already has an existing Solar System installed on their roof or property.

" ***Applicable Law*** " or " ***Law*** " means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, judgment, decree, or rule of law of any Governmental Authority having jurisdiction over the Products, the marketing of the Products, the Sales Materials, the site at which Products are installed, and this Agreement.

" ***Basic SmartHome System*** " is the equivalent of up to one thousand five hundred dollars ($1,500) of Vivint SmartHome equipment and one (1) year of prepaid monitoring service.

" ***Competing Product*** " means: (a) in the case of Vivint Solar, renewable energy or energy storage products and services; and (b) in the case of Vivint, residential and commercial premises automation and security products and services.

" ***Customer*** " means an Eligible Individual who obtains a Primary Party's Products through the provision of Dealer services by the other Party.

" ***Customer Agreement*** " means an agreement that a Party, acting in its capacity as Dealer, presents to Subscribers in order to effectuate subscriptions to its Primary Party's Products. In the case of Vivint Solar as the Primary Party, the Solar Systems are sold under one of the following Customer Agreements:

(a) ***"PPA*** " means 20-Year Residential Solar Power Purchase Agreement ;

(b) " ***Lease*** " means 20-Year Residential Solar System Lease Agreement; and

(c) " ***SPA*** " means Residential Solar System Purchase Agreement.

(d) " ***MSA*** " means Maintenance Services Agreement.

In the case of Vivint as the Primary Party, the SmartHome Systems are sold under one of the following Customer Agreements:

(a) " ***PSA*** " means System Purchase and Services Agreement;

(b) " ***SES*** " means Schedule of Equipment and Services; and either

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(c) " ***RIC*** " means Retail Installment Contract; or

(d) " ***P-Note*** " means Promissory Note offered by Citizens One.

" ***Dealer*** " means either Party when marketing, distributing, reselling or contracting for its Primary Party's Product under this Agreement.

" ***Eligible Individuals*** " means:

(a) in the case of Vivint as Primary Party: an individual who (i) has a minimum FICO score of 600; (ii) is the homeowner; (iii) has completed both a pre- and post-installation survey; (iv) entered into a service agreement with Vivint; (v) had Vivint products installed and applicable services activated in their home; and (vi) has paid for the first month of service; and (i) Vivint Solar has turned properly competed paperwork for that customer in accordance with this Agreement; and (ii) the applicable right of rescission period has expired without that right being exercised by the customer.

(b) in the case of Vivint Solar as Primary Party: an individual: (i) who is over eighteen (18) years of age; (ii) who is a homeowner in fee simple; (iii) whose home is owner occupied and is a single family detached house and is not part of a multi-family dwelling (including duplex, triplex, or town home); (iv) whose home has a roof, electrical distribution system and structure in good condition; (v) maintains a broadband Internet connection at the home; (vi) whose home is located in Vivint Solar's or any of its Affiliates' service territory; (vii) entered into a Customer Agreement with Vivint Solar; (viii) has a minimum FICO score that meets Vivint Solar's internal credit requirements; and (i) Vivint has turned properly competed paperwork for that customer in accordance with this Agreement; and (ii) the applicable right of rescission period has expired without that right being exercised by the customer.

" ***Financing Partner*** " means an entity that has partnered with a Party in order to provide consumer financing to Customers of the Party's Products.

" ***Governmental Approval*** " means any authorization, approval, order, license, permit, franchise or consent, registration, declaration or filing with any Governmental Authority.

" ***Governmental Authority*** " means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

" ***Installation Fee*** " means a percentage of the Dealer Fee, mutually agreed upon, in writing, by each Party's Chief Executive Officer or President, as applicable, that is paid to Vivint at the time the Solar System is installed and electrically complete.

" ***Intellectual Property Rights*** " means, with respect to any P erson, all (a) patents, patent applications, patent disclosures, inventions and improvements (whether patentable or not), (b) copyrights and copyrightable works (including computer programs) and registrations and applications therefor, including any softwa re, firmware, or source code, (c) trade secrets, know-how and other confidential information, (d) database rights, (e) have made drawings and (f) all other forms of intellectual property, including waivable or assignable

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rights of publicity or moral rights , and any right to bring suit or collect damages for the infringement, misappropriation or violation of the foregoing, anywhere in the world, that are held by that Person.

" ***Invention*** " means any information, inventions, or discoveries (whether copyrightable, patentable or not), innovations, products, suggestions, ideas, communications, correspondence, notes, reports, data, records, results, processes reduced to practice, made or developed by a Party in the course of performing hereunder.

" ***Joint Customer*** " means an individual who is a Customer of both Parties' Products.

" ***Licensing Requirements*** " means any and all federal, state, and local licenses and permits required of a Party or its Representatives or, at a minimum, as required by the Primary Party's policy and standards and as mutually agreed upon by the Parties, to perform its obligations and services under this Agreement in the Territory, including, but not limited to, selling its Primary Party's Products through the sales channels set out in Section 3 .

" ***Losses*** " means any and all deficiencies, judgments, settlements, assessments, liabilities, losses, damages, interest, fines, penalties, costs, expenses (including legal, accounting and other costs and expenses of professionals) incurred in connection with investigating, defending, settling or otherwise satisfying any and all Actions, assessments, judgments or appeals, and in seeking indemnification therefor, and interest on any of the foregoing to the extent that interest is awarded thereon; provided that the term "Losses" shall not include any special or punitive damages, except to the extent any such special or punitive damages are awarded pursuant to a third-party claim.

" ***Organizational Document*** " means a Party's articles or certificate of incorporation and its by-laws, regulations or similar governing instruments required by the laws of its jurisdiction of formation or organization.

" ***Permit Fee*** " means a percentage of the Dealer Fee, mutually agreed upon, in writing, by each Party's Chief Executive Officer or President, as applicable, that is paid to Vivint at the time the Solar Systems permit is submitted.

" ***Person*** " means any individual, corporation, company, voluntary association, partnership, incorporated organization, trust, limited liability company or any other entity or organization, including any Governmental Authority. A Person shall include any officer, director, member, manager, employee or agent of such Person.

" ***Policies and Procedures*** " means those guidelines, policies and procedures, including but not limited to those set out in Exhibit F, of the Parties in their capacity as Primary Party and as may be changed from time to time upon written notice to the other Party.

" ***Products*** " means: (i) in the case of Vivint as a Primary Party, the SmartHome System and includes any ancillary services provided in connection therewith; and (ii) in the case of Vivint Solar as a Primary Party, the Solar Systems and includes any ancillary services provided in connection therewith. References to " ***Primary Products*** " means: (i) in the case of Vivint as Dealer, the SmartHome System and includes any ancillary services provided in connection therewith, excluding the Basic SmartHome System; and (ii) in the case of Vivint Solar as Dealer, the Solar Systems and includes any ancillary services provided in connection therewith.

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" ***Prospective Customer*** " means a potential Customer that a Party, acting in its capacity as Dealer, has identified for its Primary Party's Products.

" ***Primary Party*** " means, with respect to each Party, the Party for whom it and its Representatives provides Dealer services hereunder.

" ***Representative*** " means an employee (including direct sellers) of a Party who is authorized by such Party, acting in its capacity as Dealer, to sell its Primary Party's Products under this Agreement.

" ***Sales Materials*** " oral, verbal, or written advertising, promotional, marketing, press releases, training and publicity items of any nature that relate to the Products, that are used by Dealer, its Representatives (including scripts used in telemarketing and other consumer interactions), or in which Primary Party's name or Trademarks are identified or mentioned in any manner.

" ***SmartHome System*** " means Vivint's smart home system and each component connected thereto.

" ***Solar Systems*** " means Vivint Solar's standard solar modules, inverters, racking, storage devices, consumption devices, and other components.

" ***Territory*** " means collectively the Vivint Territory and the Vivint Solar Territory.

" ***Vivint Territory*** " has the meaning set forth in Exhibit G .

" ***Vivint Solar Territory*** " has the meaning set forth in Exhibit G .

2. **Rules of Interpretation** . In this Agreement:

(a) The terms "herein," "herewith" and "hereof" are references to this Agreement, taken as a whole.

(b) The term "includes" or "including" shall mean "including, without limitation".

(c) References to a "Section," "subsection," "clause," "Article" or "Exhibit" shall mean a Section, subsection, clause, Article or Exhibit of this Agreement, as the case may be, unless in any such case the context requires otherwise.

(d) All references to a given agreement, instrument or other document, or to any Law, Standard or Code, shall be a reference to such agreement, instrument or other document, or to such Law, Standard or Code, as modified, amended, supplemented and/or restated from time to time.

(e) Reference to a person or party includes its successors and permitted assigns.

(f) The singular shall include the plural and the masculine shall include the feminine and neuter, and vice versa.

(g) Where the words "required," "approved," "satisfactory," "determined," "acceptable," "decision," or words of like import are used in this Agreement, action by Buyer is indicated unless the context clearly indicates otherwise.

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EXHIBIT B

FORM DEALER FEES NO. [__]

This DEALER FEES SCHEDULE NO. 1, effective as of _____, 20___, is executed by and between Vivint Solar, Inc. (" ***Vivint Solar*** ") and Vivint, Inc. (" ***Vivint*** ") and sets forth the Dealer Fees payable under that certain Sales Dealer Agreement executed by and between the Parties (the " ***Dealer Agreement*** "), effective as of [July ___, 2017]. Capitalized terms not otherwise defined herein have the meanings given to them in the Dealer Agreement.

1. Vivint Solar will pay Vivint the following amounts for Solar Systems installed and electrically complete:

    a. Solar Systems sold through an SPA

        i. [*State*] - $[_____] per kilowatt

        ii. [*State*] - $[_____] per kilowatt

    b. Solar Systems sold through a PPA or Lease:

        i. [*State*] - $[_____] per kilowatt

        ii. [*State*] - $[_____] per kilowatt

    c. The Permit Fee will be equal to [____] percent ([__]%) of the Dealer Fee.

    d. The Installation Fee will be equal to [____] percent ([__]%) of the Dealer Fee.

2. Vivint will pay Vivint Solar the following amounts for SmartHome Systems installed :

    a. $[___] less any pricing or equipment discounts provided by the Dealer Representative, discounts will be limited to $[___] per SmartHome System; and

    b. [__]% of the total retail value of the equipment, not including installation fees.

    c. Vivint may deduct $[___] from the applicable Dealer Fees for each SmartHome System sale by a Vivint Solar Representative wherein such Representative sells the accompanying monitoring service package for $[___].

3. Vivint Solar will pay Vivint an amount equal to $[___] for each Basic SmartHome System.

4. VS Sales Concierge Fee will be $[___] per kilowatt installed.

5. The Dealer Fees may be updated from time to time by the Parties, in writing.

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VIVINT, INC.,	VIVINT SOLAR DEVELOPER, LLC, a Utah corporation a Delaware limited liability co mpany
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

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EXHIBIT C

DOOR-TO-DOOR CODE OF CONDUCT

Customer Relations

1. Personnel and Representatives must carry identification at all times. The identification must be clearly visible to Customers, and state the name of such the Personnel or Representative, the identification number, and an accurate photo of such Person.
2. Personnel and Representatives must wear a Primary Party-approved uniform at all times when providing Dealer services and selling Products.
3. At the initiation of a conversation with a Customer, Personnel and Representatives must not identify themselves as being "with Vivint Solar" or "working for Vivint Solar", rather shall only mention Vivint Solar services after first soliciting another Primary Party service to such Customer.
4. Personnel and Representatives shall not generically identify themselves as being from "the solar company" or "the utility company".
5. Personnel and Representatives shall be properly licensed and registered in compliance with any applicable laws, ordinances and regulations.
6. Personnel and Representatives shall never receive any form of compensation or remuneration from Customers or other third parties, including any cash or instrument drafted by or from any such Person in connection with the Dealer services.

Customer Respect

1. Personnel and Representatives shall discontinue conversations and immediately leave a Customer's premises upon the request of such Customer.
2. Personnel and Representatives shall not approach a Customer's premises if a "No Solicitation", "No Soliciting", "No Trespassing", or other similar sign is posted on such Customer's premises.
3. Personnel and Representatives shall not remove another company's Products or signage from a Customer's property.
4. Personnel and Representatives shall be honest, courteous and respectful in all dealing with, and provide complete information to, Customers and other third parties.
5. Personnel and Representatives shall ensure that they maintain a polite, cooperative manner when dealing with any and all Customers and other third parties.
6. Personnel and Representatives shall never be misleading with Customers, including by making promises or commitments to Customers or other third parties that are not consistent with the Products, or failing to disclose any material fact.

Deceptive or Unlawful Business Practices

1. Personnel and Representatives shall not engage in deceptive, misleading, unlawful, or unethical business practices, including falsely stating or implying any of the following to a Customer:
    a. That a competitor company is going out of business or is in financial difficulty;
    b. That a competitor company does not exist, or that it is changing or has changed its company

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name;

c. That the Personnel's or Representative's company is acquiring, merging with, has been taken over, or is part of a competitor company;

d. That the Personnel or Representative is a representative or agent for, is acting on behalf of, or is otherwise acting with the consent or approval of a competitor company;

e. That the Primary Party is the 'sister" company of a competitor company;

f. That the Primary Party manufactures the equipment used by a competitor company;

g. That the Primary Party is performing routine maintenance on a competitor company's equipment;

h. That any change proposed during a conversation with such Customer is an "update" or "upgrade" of an existing system when such a transaction requires an agreement with a Person different than such Customer's existing solar system;

i. That the Primary Party or any other Person is "taking over" the solar services of a competitor company's accounts or has purchased such Customer's account from a competitor company;

j. That a competitor company is not, or has stopped, or is no longer capable of, providing solar services or Products for such Customer or its Dwelling;

k. That the Primary Party is affiliated with, has the endorsement of, or is in any manner acting at the direction of, any governmental or law enforcement agency;

l. That such Customer has been specially selected to receive a bargain, discount, or other advantage;

m. [That the Products being offered for sale cannot be purchased in any place of business, but only through direct solicitation;] and

n. That such Customer will receive a discount, rebate, or other benefit for permitting such Customer's Dwelling or other property, real or personal, to be used as a so-called "model home" or "model property" for demonstration or advertising purposes.

2. Personnel and Representatives shall not:

a. Misrepresent the capabilities of the Products;

b. Quote statistics, purported costs savings, or provide other information that are known to be false or misleading, and for which such Personnel and Representatives have not made a reasonable effort to objectively quantify or substantiate;

c. Falsely represent to such Customer that a Person has, as applicable, purchased or endorsed the Personnel or Representatives or the Company; and

d. Assist such Customer to cancel their existing service;

Presentations to Customers

1. Personnel and Representatives shall offer each Customer accurate information regarding the following, as they relate to the Products:

a. Price;

b. Performance of the Products and related services;

c. Credit requirements and other qualifying requirements;

d. Terms of payment;

e. Cooling-off or right of rescission periods;

f. After-sales service; and

g. Installation scheduling.

2. When making comparisons with another company's products and services, Personnel and Representatives must use truthful information based on facts that can be objectively substantiated.

3. Personnel and Representatives shall take appropriate steps to safeguard the protection of all private information provided by a Customer or other third parties.

4. Personnel and Representatives shall always inform each Customer of a credit authorization requirement and receive such Customer's consent before requesting the credit authorization.

5. Personnel and Representatives shall give accurately answer questions from each Customer

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EXHIBIT E

NOTICES; REPRESENTATIVES

Parties' official contacts for all Notices:

Vivint Solar's Contact Information

For Invoices :

Gabe Engman
Assistant Controller, Director of SEC Reporting
1800 W. Ashton Blvd.
Lehi, UT 84043
Phone:
Email:

For all other notices :

Vivint Solar Developer, LLC
1800 W. Ashton Blvd.
Lehi, Utah 84043
Attention: David Bywater, CEO

With a copy to :

Vivint Solar Legal Department
1800 W. Ashton Blvd.
Lehi, UT 84043
Fax:
Email:

Vivint's Contact Information

For Invoices :
Vivint Accounts Payable
Email:

For all other notices :

Josh Crittenden
Director of Sales Performance
4931 N. 300 W.
Provo, Utah 84604

Phone:
Email:

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With a copy to :

Shawn J. Lindquist
Chief Legal Officer
4931 North 300 West
Provo, Utah 84604

Phone:
Email:

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EXHIBIT F

POLICIES AND PROCEDURES

I. Customer Materials .

a. Vivint, when acting as a Dealer for Vivint Solar, must obtain the following documents from every Customer (" ***Vivint Solar Customer Materials*** "):

- Copies of 12 months of utility bills.
- HOA authorization, if applicable.
- Copy of Photo ID.
- Executed Credit Authorization.
- Executed Customer Agreement.
- Completed and executed interconnection and net metering paperwork.
- Materials and any paperwork required for permitting.
- Rebate reservation, SREC, and related paperwork.

b. Vivint Solar when acting as a Dealer for Vivint must obtain the following documents from every Customer (" ***Vivint Customer Materials*** " and collectively with the Vivint Solar Customer Materials, " ***Customer Materials*** "):

- Executed Customer Agreement.

II. Vivint Solar Program Mechanics .

- Dealer will market and solicit Customers to enter into a Customer Agreement consistent with Primary Party's current marketing and lead generation guidelines.
- Upon execution by the Customer of the Customer Agreement, Dealer will sign the Customer Agreement.
- Dealer will submit the Customer Agreement along all other required Customer Materials via the Company's IT platform.
- Primary Party will review and approve, or reject with explanation, each Customer Agreement within 3 business days.
- Upon approval, Primary Party will countersign the Customer Agreement and deliver the fully-executed copy to Dealer and the Customer.
- If rejected, the Dealer must resolve the issue, as outlined in the explanation, and have the Customer resign the Customer Agreement prior to submitting to the Company for review.
- Dealer will be responsible to shepherd the Customer through all aspects of the post-sale process through installation of the PV System.
- If additional documents or materials are need from permitting authorities, the Customer's utility, Financing Partners, or anyone else, then Dealer will be responsible to obtain these documents and information from the Customer.
- Primary Party will follow its ordinary process for site survey, design and engineering.
- With Dealer's assistance, Primary Party will install any applicable Ancillary Products scheduled for installation before the PV System is installed.

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- Upon completion of the design, Dealer will be responsible to present the Customer Packet to the customer and close the design with the Customer.
- Primary Party will be responsible to complete the Customer welcome and verification call.
- After execution of the Customer Agreement, approval of the Customer Packet by the Customer, and completion of the Customer Verification Call, then Primary Party will proceed with obtaining the permit, procuring the equipment, and installing the PV System and any Ancillary Products that have not already been installed.
- With Dealer's assistance, Primary Party will be required to pass inspection and obtain permission to operate from the utility.

III. Vivint Solar Ethics Standard .

IV. Vivint Program Mechanics .

- Dealer will market and solicit Customers to enter into a Customer Agreement consistent with Primary Party's current marketing and lead generation guidelines.
- Upon execution by the Customer of the Customer Agreement, Dealer will sign the Customer Agreement.

V. Reporting .

a. At least once per month, Dealer will provide to Primary Party the following:

- a status report of each Customer, with details as to status and next steps;
- a list of each employee participating in the Program with licensing information;
- a summary of consumer complaints or actions taken by any state or regulatory agency.

b. Promptly after becoming aware, Dealer will notify Primary Party in writing upon the occurrence of any of the following:

- dispute, legal threat, lawsuit, or media threat relating to any Customer;
- the filing of any material litigation or action by any government agency against Dealer;
- any materi al default under Dealer's agreements with its Financing Partners;
- the departure of any principal of Dealer, a qualifier or RME for any license, or the principal contact party for Dealer.

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EXHIBIT G

TERRITORY

I. Vivint Solar Territory and Customer Agreements .

Vivint, as the Dealer, may provide Vivint Solar's Products to Customers located within the following locations, set forth below, provided, that (a) the utility companies set forth opposite such jurisdictions service the Dwellings in which such Customers reside, (b) with respect to a specified geographic location, Dealer may only offer Products related to the types of Customer Agreements set forth opposite such specified geographic, and (c) Dealer has obtained and continues to maintain all requisite Licenses necessary to sell and operate in those geographic locations.

Locations	Customer Agreement(s)	Utility Companies
***	SPA, Lease	***
***	PPA, SPA, Lease	***
***	PPA, SPA	***
***	SPA	***
***	SPA	***
***	SPA	***
***	PPA, SPA	***
***	SPA	***
***	PPA, SPA	***
***	PPA, SPA	***
***	PPA, SPA	***
***	PPA, SPA	***
***	SPA	***
***	Lease, SPA	***
***	SPA	***
***	SPA	***

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***	SPA	***
***	SPA	***
***	SPA, PPA (when approved)	***
***	SPA	***
***	SPA	***

II. Vivint Territory and Customer Agreements .

Locations	Customer Agreement(s)
***	In each jurisdiction listed Vivint utilizes the following contracts: Citizens Loan Agreement, Retail Installment Contract, Purchase and Services Agreement
***	
***	
***	
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***

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EXIHBIT H

HIBERNATION POLICIES

For all Vivint Solar accounts, the following hibernation standards will apply:

1. If an account has a credit run but no completed CAD.
2. If an account has a completed CAD but a site survey has not been scheduled within 90 days.
3. If an account has a site survey scheduled but not completed within 45 days
4. If an account has a site survey completed but no permit has been issued within 90 days.
5. If an account has a permit completed but no install scheduled within 90 days.

For all Vivint accounts, the following hibernation standards will apply:

1. If Vivint has ran credit on a potential account but no further action has been taken within 45 days.

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Exhibit 31.1

I, David Bywater, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vivint Solar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017

/s/ David Bywater

David Bywater
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

I, Dana Russell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vivint Solar, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017

/s/ Dana Russell

Dana Russell
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David Bywater, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vivint Solar, Inc. for the quarterly period ended September 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vivint Solar, Inc.

November 7, 2017

/s/ David Bywater
David Bywater
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Dana Russell, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vivint Solar, Inc. for the quarterly period ended September 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vivint Solar, Inc.

November 7, 2017

/s/ Dana Russell
Dana Russell
Chief Financial Officer and Executive Vice President