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 1934**

For the quarterly period ended June 30, 2016

☐ **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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of August 1, 2016, 107,713,152 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 per share data and footnote 1)
(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69,614	$ 92,213
Accounts receivable, net	11,940	3,636
Inventories	3,867	631
Prepaid expenses and other current assets	16,000	17,078
Total current assets	101,421	113,558
Restricted cash and cash equivalents	19,552	15,035
Solar energy systems, net	1,303,904	1,102,157
Property and equipment, net	28,743	48,168
Intangible assets, net	1,901	2,031
Goodwill	—	36,601
Prepaid tax asset, net	364,536	277,496
Other non-current assets, net	15,034	14,024
TOTAL ASSETS (1)	$ 1,835,091	$ 1,609,070
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY		
Current liabilities:		
Accounts payable	$ 54,268	$ 49,986
Accounts payable—related party	493	1,905
Distributions payable to non-controlling interests and redeemable non-controlling interests	9,820	11,347
Accrued compensation	19,111	13,758
Current portion of deferred revenue	11,674	4,968
Current portion of capital lease obligation	5,706	5,489
Accrued and other current liabilities	32,792	29,017
Total current liabilities	133,864	116,470
Capital lease obligation, net of current portion	7,962	10,055
Long-term debt	550,572	415,850
Deferred tax liability, net	299,870	216,033
Deferred revenue, net of current portion	37,772	43,304
Other non-current liabilities	9,171	28,565
Total liabilities (1)	1,039,211	830,277
Commitments and contingencies (Note 16)		
Redeemable non-controlling interests	150,686	169,541
Stockholders' equity:		
Common stock, $0.01 par value—1,000,000 authorized, 107,696 shares issued and outstanding as of June 30, 2016; 1,000,000 authorized, 106,576 shares issued and outstanding as of December 31, 2015	1,077	1,066
Additional paid-in capital	532,611	530,646
Accumulated deficit	(31,617)	(12,769)
Total stockholders' equity	502,071	518,943
Non-controlling interests	143,123	90,309
Total equity	645,194	609,252
TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY	$ 1,835,091	$ 1,609,070

(1) The Company’s assets as of June 30, 2016 and December 31, 2015 include $1,237.9 million and $1,005.8 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 $1,208.8 million and $990.6 million as of June 30, 2016 and December 31, 2015; cash and cash equivalents of $17.8 million and $12.0 million as of June 30, 2016 and December 31, 2015; accounts receivable, net, of $9.3 million and $3.1 million as of June 30, 2016 and December 31, 2015; other non-current assets, net of $1.2 million and a de minimis amount as of June 30, 2016 and December 31, 2015; and prepaid expenses and other current assets of $0.8 million and $0.1 million as of June 30, 2016 and December 31, 2015. The Company’s liabilities as of June 30, 2016 and December 31, 2015 included $64.5 million and $66.4 million of liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to non-controlling interests and redeemable non-controlling interests of $9.8 million and $11.3 million as of June 30, 2016 and December 31, 2015; deferred revenue of $45.7 million and $47.9 million as of June 30, 2016 and December 31, 2015; accrued and other current liabilities of $7.2 million and $3.9 million as of June 30, 2016 and December 31, 2015; and other non-current liabilities of $1.8 million and $3.3 million as of June 30, 2016 and December 31, 2015. For further information see Note 11—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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenue:				
Operating leases and incentives	$ 30,061	$ 15,301	$ 46,639	$ 23,881
Solar energy system and product sales	4,843	834	5,495	1,799
Total revenue	34,904	16,135	52,134	25,680
Operating expenses:				
Cost of revenue—operating leases and incentives	38,538	33,295	76,298	57,175
Cost of revenue—solar energy system and product sales	3,716	476	4,138	914
Sales and marketing	10,813	18,697	23,461	25,130
Research and development	144	920	1,376	1,502
General and administrative	18,064	31,364	40,984	49,994
Amortization of intangible assets	155	3,721	420	7,484
Impairment of goodwill and intangible assets	—	—	36,601	4,506
Total operating expenses	71,430	88,473	183,278	146,705
Loss from operations	(36,526)	(72,338)	(131,144)	(121,025)
Interest expense	7,413	2,730	13,178	4,857
Other expense	309	60	339	373
Loss before income taxes	(44,248)	(75,128)	(144,661)	(126,255)
Income tax expense	8,055	14,577	13,204	23,425
Net loss	(52,303)	(89,705)	(157,865)	(149,680)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(64,674)	(103,358)	(139,017)	(175,482)
Net income available (loss attributable) to common stockholders	$ 12,371	$ 13,653	$ (18,848)	$ 25,802
Net income available (loss attributable) per share to common stockholders:				
Basic	$ 0.12	$ 0.13	$ (0.18)	$ 0.24
Diluted	$ 0.11	$ 0.12	$ (0.18)	$ 0.24
Weighted-average shares used in computing net income available (loss attributable) per share to common stockholders:				
Basic	107,226	105,988	106,922	105,647
Diluted	111,380	109,794	106,922	109,424

See accompanying notes to condensed consolidated financial statements.

Vivint Solar, Inc.

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (157,865)	$ (149,680)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,876	9,753
Amortization of intangible assets	420	7,484
Impairment of goodwill and intangible assets	36,601	4,506
Deferred income taxes	83,837	54,203
Stock-based compensation	2,467	20,610
Loss on removal of solar energy systems and property and equipment	259	—
Non-cash interest and other expense	2,997	1,672
Reduction in lease pass-through financing obligation	(1,666)	—
Excess tax effects from stock-based compensation	(981)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,304)	(3,586)
Inventories	(3,236)	432
Prepaid expenses and other current assets	2,307	252
Prepaid tax asset, net	(87,040)	(87,193)
Other non-current assets, net	(3,294)	(228)
Accounts payable	(1,078)	1,051
Accounts payable—related party	(1,412)	(154)
Accrued compensation	4,638	3,611
Deferred revenue	1,174	2,751
Accrued and other liabilities	1,578	10,927
Net cash used in operating activities	(108,722)	(123,589)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the cost of solar energy systems	(211,622)	(234,050)
Payments for property and equipment, net	(1,514)	(3,402)
Change in restricted cash and cash equivalents	(4,517)	(6,132)
Purchase of intangible assets	(291)	(329)
Net cash used in investing activities	(217,944)	(243,913)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from investment by non-controlling interests and redeemable non-controlling interests	183,263	168,783
Distributions paid to non-controlling interests and redeemable non-controlling interests	(11,813)	(10,689)
Proceeds from long-term debt	144,706	103,500
Payments on long-term debt	(4,150)	—
Payments for debt issuance costs	(6,230)	(3,078)
Proceeds from lease pass-through financing obligation	860	—
Principal payments on capital lease obligations	(3,059)	(2,070)
Proceeds from issuance of common stock	490	588
Excess tax effects from stock-based compensation	—	1,632
Payments for deferred offering costs	—	(589)
Net cash provided by financing activities	304,067	258,077
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,599)	(109,425)
CASH AND CASH EQUIVALENTS—Beginning of period	92,213	261,649
CASH AND CASH EQUIVALENTS—End of period	$ 69,614	$ 152,224
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Costs of lessor-financed tenant improvements	$ 7,850	$ —
Costs of solar energy systems included in changes in accounts payable, accrued compensation and other accrued liabilities	$ 6,662	$ 40,437
Property acquired under build-to-suit agreements	$ 2,896	$ 6,619
Sale-leaseback of property under build-to-suit agreements	$ (28,456)	$ —
Vehicles acquired under capital leases	$ 1,811	$ 4,728
Receivable for tax credit recorded as a reduction to solar energy system costs	$ 1,220	$ 1,318
Accrued distributions to non-controlling interests and redeemable non-controlling interests	$ (1,527)	$ (975)

See accompanying notes to condensed consolidated financial statements.

Vivint Solar, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Vivint Solar, Inc. was incorporated as a Delaware corporation on August 12, 2011. Vivint Solar, Inc. and its subsidiaries are collectively referred to as the "Company." The Company commenced operations in May 2011.

The Company primarily offers solar energy to residential customers through long-term customer contracts, such as power purchase agreements and solar energy system leases. The Company also offers customers the option to purchase solar energy systems. The Company enters into customer contracts primarily through a sales organization that uses a direct-to-home sales model. The long-term customer contracts are typically for 20 years and require the customer to make monthly payments to the Company.

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 to finance a portion of the Company's variable and fixed costs associated with installing the residential solar energy systems under long-term customer contracts. The obligations of the Company are in no event obligations of the investment funds.

Merger Agreement with SunEdison

On July 20, 2015, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with SunEdison , Inc., a Delaware corporation ("SunEdison") and SEV Merger Sub, Inc., a wholly-owned subsidiary of SunEdison. The Merger Agreement was subsequently amended on December 9, 2015 to update the terms of the merger. The Company terminated the Merger Agreement on March 7, 2016. On March 8, 2016, the Company filed suit against SunEdison alleging that SunEdison willfully breached its obligations under the Merger Agreement and breached its implied covenant of good faith and fair dealing.

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 14, 2016. The unaudited condensed consolidated financial statements are prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments (all of which are considered of normal recurring nature) considered necessary to present fairly the Company's financial results. The results of the six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2016 or for any other interim period or other future year.

The condensed consolidated financial statements reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. 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. 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 11—Investment Funds.

Use of Es timates

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

Comprehensive Income (Loss)

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

Debt Issuance Costs

During the six months ended June 30, 2016, the Company adopted Accounting Standards Update ("ASU") 2015-03, which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt obligation. ASU 2015-15 further clarified that this treatment is not required to be applied to revolving line-of-credit arrangements. The Company applied ASU 2015-03 on a retrospective basis; however, the Company's long-term debt in all prior periods presented was comprised of revolving line-of-credit arrangements. As such, there is no change to the Company's prior period condensed consolidated balance sheet. In 2016, the Company entered into term loan facilities that are presented net of debt issuance costs.

Intangible Assets – Internal-Use Software

During the six months ended June 30, 2016, the Company adopted ASU 2015-05, which requires that if a cloud computing arrangement includes a software license, the payment of fees should be accounted for in the same manner as the acquisition of other software licenses. If there is no software license, the fees should be accounted for as a service contract. The Company adopted this update prospectively, which did not have a significant impact on the Company's condensed consolidated financial statements in the current period.

Other Changes

During the six months ended June 30, 2016, the Company consolidated its reporting segments as discussed in Note 18—Segment Information. There have been no other changes to the Company's significant accounting policies as described in the Company's annual report on Form 10-K for the year ended December 31, 2015 .

Recent Accounting Pronouncements

In March 2016 through May 2016, the Financial Accounting Standards Board (the "FASB") issued 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.* The Company is evaluating the impact that these updates will have on its condensed consolidated financial statements. Additionally, ASU 2015-14 defers the effective date of ASU 2014-09 for the Company to January 1, 2018, with early adoption available on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating which transition method to use and does not expect the update to have a significant impact on its condensed consolidated financial statements and related disclosures based on its current business model.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The objective of this update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture rates and classification on the statement of cash flows. This update is effective for annual periods beginning after December 15, 2016 for public business entities and early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company expects to apply the update upon its effectiveness in the first quarter of 2017 and expects the update to have an impact to its equity balance in the condensed consolidated balance sheet and all expense line items on the condensed consolidated statement of operations in the first quarter of 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (T opic 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 ent ities and early adoption is permitted. The amendments should be applied using a modified retrospective approach. The Company has operating leases that will be affected by this update and is evaluating the impact on its condensed consolidated financial stat ements and disclosures. The Company expects to apply the update upon its effectiveness in the first quarter of 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* . The objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This update is effective in fiscal years beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company does not expect the update to have a significant impact on its condensed consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* . This ASU changes 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 by the FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU does not change the measurement principles for inventories valued under the last-in, first-out method. The update is effective in fiscal years beginning after December 15, 2016. Early adoption is permitted. This update is not expected to have a significant impact on the condensed consolidated financial statements of the Company.

3. Fair Value Measurements

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

	June 30, 2016			
	Level I	Level II	Level III	Total
Financial Assets				
Time deposits	$ —	$ 100	$ —	$ 100
Total financial assets	$ —	$ 100	$ —	$ 100

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

The carrying amounts of certain financial instruments of the Company, consisting of cash and cash equivalents excluding time deposits, accounts receivable, accounts payable, accounts payable—related party and distributions payable to redeemable non-controlling interests (all Level I) approximate fair value due to their relatively short maturities. Time deposits (Level II) approximate fair value due to their short-term nature (30 days) and, upon renewal, the interest rate is adjusted based on current market rates. The Company’s outstanding principal balance of long-term debt is carried at cost and was $556.4 million and $415.9 million as of June 30, 2016 and December 31, 2015. The Company estimated the fair values of long-term debt to approximate its carrying values as interest accrues at floating rates based on market rates. The Company did not realize gains or losses related to financial assets for any of the periods presented.

4. Inventories

Inventories consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Solar energy systems held for sale	$ 3,399	$ 121
Photovoltaic installation devices and software products	468	510
Total inventories	$ 3,867	$ 631

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 market. Photovoltaic installation devices and software products are stated at the lower of cost, on an average cost basis, or market.

5 . Solar Energy Systems

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

	June 30, 2016	December 31, 2015
System equipment costs	$ 1,092,752	$ 893,088
Initial direct costs related to solar energy systems	219,650	171,081
	1,312,402	1,064,169
Less: Accumulated depreciation and amortization	(50,471)	(32,505)
	1,261,931	1,031,664
Solar energy system inventory	41,973	70,493
Solar energy systems, net	$ 1,303,904	$ 1,102,157

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 $9.7 million and $4.9 million for the three months ended June 30, 2016 and 2015. Depreciation and amortization expense related to solar energy systems of $18.0 million and $8.7 million was recorded for the six months ended June 30, 2016 and 2015.

6 . Property and Equipment

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

	Estimated Useful Lives	June 30, 2016	December 31, 2015
Vehicles acquired under capital leases	3 years	$ 22,361	$ 24,149
Leasehold improvements	1-12 years	13,952	4,116
Furniture and computer and other equipment	3 years	6,755	6,524
		43,068	34,789
Less: Accumulated depreciation and amortization		(14,325)	(12,181)
		28,743	22,608
Build-to-suit lease asset under construction		—	25,560
Property and equipment, net		$ 28,743	$ 48,168

The Company recorded depreciation and amortization related to property and equipment of $2.8 million and $1.9 million for the three months ended June 30, 2016 and 2015. Depreciation and amortization expense related to property and equipment of $5.2 million and $3.4 million was recorded for the six months ended June 30, 2016 and 2015.

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 $1.6 million and $1.2 million was capitalized in solar energy systems, net for the three months ended June 30, 2016 and 2015. Depreciation on vehicles under capital leases of $3.3 million and $2.4 million was capitalized in solar energy systems, net for the six months ended June 30, 2016 and 2015.

Because of its involvement in certain aspects of the construction of a new headquarters building in Lehi, UT, t he Company was deemed the owner of the building fo r accounting purposes during the construction period. Accordingly, the Company recorded a build-to-suit lease asset and corresponding liabilities during the construction period. In May 2016, construction on the headquarters building was completed. The building qualified for sale-leaseback treatment. A s such , the Company has removed the build-to-suit lease asset and liabilities from its condensed consolidated balance sheet as of June 30, 2016. For additional information regarding the related build-to-sui t liabilit ies and the resulting ongoing lease, s ee Note 16 —Commitments and Contingencies.

7 . Intangible Assets and Goodwill

Intangible Assets

Intangible assets consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Cost:		
Internal-use software	$ 1,605	$ 1,591
Developed technology	522	522
Trademarks/trade names	201	201
Customer relationships	164	164
Total carrying value	2,492	2,478
Accumulated amortization:		
Internal-use software	(304)	(219)
Developed technology	(158)	(126)
Trademarks/trade names	(49)	(39)
Customer relationships	(80)	(63)
Total accumulated amortization	(591)	(447)
Total intangible assets, net	$ 1,901	$ 2,031

The Company recorded amortization expense of $0.2 million and $3.7 million for the three months ended June 30, 2016 and 2015, which was included in amortization of intangible assets in the condensed consolidated statements of operations. The Company recorded amortization expense of $0.4 million and $7.5 million for the six months ended June 30, 2016 and 2015. An internal-use software asset of $0.3 million reached the end of its useful life during the six months ended June 30, 2016 and was removed from cost and accumulated amortization.

In February 2015, the Company decided to discontinue the external sales of two Vivint Solar Labs products: the SunEye and PV Designer. This discontinuance was considered an indicator of impairment, and a review regarding the recoverability of the carrying value of the related intangible assets was performed. In-process research and development, which was intended to generate Vivint Solar Labs product sales in the residential market, was discontinued and deemed fully impaired resulting in a charge of $2.1 million. Certain trade names that will no longer be utilized were deemed fully impaired resulting in a charge of $1.3 million. The SunEye and PV Designer developed technology assets were deemed fully impaired resulting in a charge of $0.7 million. Customer relationships were deemed partially impaired by $0.4 million due to the loss of external customers who purchased the discontinued products. As a result of this review, the Company recorded a total impairment charge of $4.5 million for the six months ended June 30, 2015. In the second quarter of 2016, the Company resumed external sales of the SunEye product. These resumed sales were not significant for the three or six months ended June 30, 2016.

Goodwill Impairment

Annual Goodwill Impairment Test

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. As of December 31, 2015, the Company consisted of two operating segments: (1) Residential and (2) Commercial and Industrial ("C&I"). As the C&I business was created in 2015 by the Company, and not acquired, and the Company's goodwill was recorded prior to 2015, all goodwill remains with the Residential operating segment. As such, the Company's impairment test is based on a single operating segment and reporting unit structure.

The Company performs its goodwill impairment test annually or whenever events or circumstances change that would indicate that goodwill might be impaired. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the qualitative step is not passed, the Company performs a two-step impairment test whereby in the first step, the Company must compare the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying value of the goodwill. Any excess of the goodwill carrying value over the implied fair value is recognized as an impairment loss.

Based on the results of the annual goodwill impairment analysis in the fourth quarter of 2015, the Company determined the two-step test was not necessary based on its qualitative assessments and concluded that it was more likely than not that the fair value of its Residential reporting unit was greater than its respective carrying value as of October 1, 2015 and 2014.

Goodwill Impairment Test as of March 31, 2016

In conjunction with the acquisition by SunEdison failing to occur, the Company's market capitalization decreased significantly during the first quarter of 2016 from $1.0 billion as of December 31, 2015 to $283 million as of March 31, 2016. The Company considered this significant decrease in market capitalization to be an indicator of impairment and the Company performed a step one test for potential impairment as of March 31, 2016.

The step one analysis resulted in the Company concluding that the carrying book value of its Residential reporting unit was higher than the business unit's fair value. Because the Residential reporting unit failed the step one test, the Company was required to perform the step two test, which utilizes a notional purchase price allocation using the estimated fair value from step one as the purchase price to determine the implied value of the reporting unit's goodwill. The completion of the step two test resulted in the determination that the $36.6 million of the Residential reporting unit's goodwill was fully impaired. The $36.6 million impairment charge is shown in the line item impairment of goodwill and intangible assets in the Company's condensed consolidated statements of operations.

In performing step one of the goodwill impairment test, it was necessary to determine the fair value of the Residential reporting segment. The fair value of the reporting unit was estimated using a discounted cash flow methodology ("DCF"). The market analysis included looking at the valuations of comparable public companies, as well as recent acquisitions of comparable companies. The Residential reporting unit is comprised of many differing consolidated entities and components that have been aggregated for operational and financial reporting purposes. The discount rate is applicable to the Residential reporting unit as a whole and is not intended for use for any individual asset, entity or component of the Company.

Two key inputs to the DCF analysis were the future cash flow projection and the discount rate. The Company used a 30-year future cash flow projection, based on the Company's long-range forecast of current customer contracts and an estimate of customer renewals of 90% subsequent to the 20-year customer contract period, discounted to present value.

The discount rate was determined by estimating the reporting unit's weighted average cost of capital, reflecting the nature of the reporting unit as a whole and the perceived risk of the underlying cash flows. In its DCF methodology, the Company used a 7.25% discount rate for the cash flows related to current customer contracts and a 9.25% discount rate for the estimated cash flows from customer renewals subsequent to the 20-year customer contract period. A higher discount rate was used for the estimated customer renewals due to the increased subjectivity of this cash flow stream. If the Company had varied the discount rates by 1.0%, it would not have impacted the ultimate results of the step one test. The excess of the carrying value over the fair value of the Residential reporting unit was approximately 15%.

Because the Residential reporting unit failed the step one test, the Company was required to perform the step two test, which utilizes a purchase price allocation using the estimated fair value from step one as the purchase price to determine the implied value of the reporting unit's goodwill. The st ep two test involves allocating the fair value of the Residential reporting unit to all of its assets and liabilities on a fair value basis, with the excess amount representing the implied value of goodwill. As part of this process the fair value of the re porting unit's identifiable assets was determined. The fair values of these assets were determined primarily through the use of the DCF method if the fair value was estimated to differ materially from book value . After determining the fair value of the rep orting unit's assets and liabilities and allocating the fair value of the Residential reporting unit to those assets and liabilities , it was determined that there was no implied value of goodwill. The carrying value of the reporting unit's goodwill was $36 .6 million, which resulted in the impairment charge of $36.6 million , which was recorded in impairment of goodwill and intangible assets in the condensed consolidated statements of operations.

8 . Accrued Compensation

Accrued compensation consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Accrued payroll	$ 10,150	$ 6,918
Accrued commissions	7,555	6,840
Accrued severance	1,406	$ —
Total accrued compensation	$ 19,111	$ 13,758

9 . Accrued and Other Current Liabilities

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

	June 30, 2016	December 31, 2015
Income tax payable	$ 9,283	$ 6,169
Current portion of lease pass-through financing obligation	4,671	3,835
Accrued professional fees	3,706	7,918
Accrued litigation settlements	2,690	1,790
Accrued return of lease pass-through upfront lease payment	2,500	—
Accrued unused commitment fees and interest	1,829	1,014
Sales and use tax payable	1,736	3,524
Deferred rent	1,732	1,064
Other accrued expenses	4,645	3,703
Total accrued and other current liabilities	$ 32,792	$ 29,017

10 .Debt Obligations

Debt obligations consisted of the following as of June 30, 2016 (in thousands, except interest rates):

	Principal Borrowings	Unamortized Debt Issuance Costs	Net Carrying Value	Unused Borrowing Capacity	Interest Rate	Maturity Date
Revolving lines of credit						
Aggregation credit facility	$ 338,500	$ — (1)	$ 338,500	$ 36,500	3.7%	March 2018
Working capital credit facility	142,600	— (1)	142,600	—	3.7	March 2020
Subordinated HoldCo credit facility	75,000	(5,662)	69,338	125,000	6.1	March 2020
Credit agreement	306	(172)	134	2,694	6.5	(2)
Total debt	$ 556,406	$ (5,834)	$ 550,572	$ 164,194		

Debt obligations consisted of the following as of December 31, 2015 (in thousands, except interest rates):

	Principal Borrowings	Unamortized Debt Issuance Costs	Net Carrying Value	Unused Borrowing Capacity	Interest Rate	Maturity Date
Aggregation credit facility	$ 269,100	$ — (1)	$ 269,100	$ 105,900	3.8%	March 2018
Working capital credit facility	146,750	— (1)	$ 146,750	—	3.5	March 2020
Total debt	$ 415,850	$ —	$ 415,850	$ 105,900		

(1) Revolving lines of credit are not presented net of unamortized debt issuance costs. See Note 2—Summary of Significant Accounting Policies.

(2) Quarterly payments of principal and interest are payable over a seven year term. The seven year term begins after the final completion date of the underlying solar energy systems.

Subordinated HoldCo Facility

In March 2016, the Company entered into a financing agreement (the “Subordinated HoldCo Facility,” formerly known as the “Term Loan Facility”) pursuant to which it may borrow up to an aggregate principal amount of $200.0 million of term loan borrowings from investment funds and accounts advised by Highbridge Principal Strategies, LLC. The borrower under the Subordinated HoldCo Facility is Vivint Solar Financing Holdings, LLC, one of the Company’s subsidiaries. The initial $75.0 million in borrowings are referred to as “Tranche A” borrowings. The remaining $125.0 million aggregate principal amount in borrowings may be incurred in three installments of at least $25.0 million aggregate principal amount prior to the first anniversary of the closing date. Such subsequent borrowings, if any, are referred to as “Tranche B” borrowings. If no Tranche B borrowings are incurred, the Company must repay outstanding Tranche A borrowings in December 2016. If any Tranche B borrowings are incurred, the maturity date for all borrowings will be extended to the fourth anniversary of the closing date. If any Tranche B borrowings are incurred, the Company may not prepay any borrowings until the second anniversary of the closing date and any subsequent prepayments of principal are subject to a fee equal to 3.0%. No Tranche B borrowings had been incurred as of June 30, 2016. Borrowings under the Subordinated HoldCo Facility will be used for the construction and acquisition of solar energy systems.

Interest on the Tranche A borrowings accrues at a floating rate of the London Interbank Offer Rate (“ LIBOR”) plus 5.5%, provided that if any Tranche B borrowings are incurred, the interest rate increases to a floating rate of LIBOR plus 8.0% for the entire principal amount outstanding. The 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. 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 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 F acility was approximately $ 1.6 million and $ 1.8 million for the three and six months ended June 30 , 2016. No interest expense was recorded for the three and six months ended June 30 , 2015. A $ 3.0 million interest reserve amount was deposited in an interest reserve account with the administrative agent and is included in restricted cash and cash equivalen ts. The interest reserve increases as borrowings increase under the Subordinated HoldCo F acility.

Bank of America, N.A. Aggregation Credit Facility

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

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

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

The Aggregation Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Aggregation Facility provides that the borrower may not incur any indebtedness other than that related to the Aggregation Facility or in respect of permitted swap agreements, and that the guarantors may not incur any indebtedness other than that related to the Aggregation Facility or as permitted under existing investment fund transaction documents. These restrictions do not impact the Company's ability to enter into investment funds, including those that are similar to those entered into previously. As of June 30, 2016, the Company was in compliance with such covenants. As of June 30, 2016, the Company has not entered into any interest rate hedges, which the Company is required to obtain by September 13, 2016.

A s of June 30, 2016, the remaining borrowing capacity was $36.5 million, which was available but undrawn.

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 $4.2 million and $2.3 million for the three months ended June 30, 2016 and 2015. Interest expense was approximately $8.2 million and $4.4 million for the six months ended June 30, 2016 and 2015. As of June 30, 2016, the current portion of debt issuance costs of $4.0 million was recorded in prepaid expenses and other current assets, and the long-term portion of debt issuance costs of $2.9 million was recorded in other non-current assets, net in the condensed consolidated balance sheet. In addition, a $6.6 million interest reserve amount was deposited in an interest reserve account with the administrative agent and is included in restricted cash and cash equivalents. The interest reserve increases as borrowings increase under the Aggregation Facility.

Working Capital Credit Facility

In March 2015, the Company entered into a revolving credit agreement (the "Working Capital Facility") pursuant to which the Company may borrow up to an aggregate principal amount of $150.0 million from certain financial institutions for which Goldman Sachs Lending Partners LLC is acting as administrative agent and collateral agent. 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 June 30, 2016, the Company had established letters of credit under the Working Capital Facility for up to $7.4 million related to insurance contracts. As such, there was no remaining borrowing capacity available as of June 30, 2016.

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

The Working Capital Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the Company's ability to incur indebtedness, incur liens, make investments, make fundamental changes to its business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Working Capital Facility provides that the Company may not incur any indebtedness other than that related to the Working Capital Facility or permitted swap agreements. These restrictions do not impact the Company's ability to enter into investment funds, including those that are similar to those entered into previously. The Company is also required to maintain $25.0 million in cash and cash equivalents and certain investments as of the last day of each quarter. As of June 30, 2016, 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 $1.5 million and $0.4 million for the three months ended June 30, 2016 and 2015. Interest expense was approximately $3.0 million and $0.4 million for the six months ended June 30, 2016 and 2015. As of June 30, 2016, 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 $1.5 million was recorded in other non-current assets, net in the condensed consolidated balance sheet.

Credit Agreement

In February 2016, a 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 $3.0 million. Proceeds from the Credit Agreement are to be used for the deployment of certain solar energy systems. Quarterly payments of principal and interest are due over a seven year term. The seven year term begins after the final completion date of the underlying solar energy systems. Interest accrues on borrowings at a rate of 6.50%. The repayment term had not yet begun as of June 30, 2016. Interest expense under the Credit Agreement was de minimis for the three and six months ended June 30, 2016. No interest expense was recorded for the three and six months ended June 30, 2015.

Interest Expense and Amortization of Debt Issuance Costs

For the three months ended June 30, 2016 and 2015, total interest expense incurred under all debt obligations was approximately $7.3 million and $2.7 million, of which $1.5 million and $0.9 million was amortization of debt issuance costs. For the six months ended June 30, 2016 and 2015, total interest expense incurred under all debt obligations was approximately $13.0 million and $4.8 million, of which $2.7 million and $1.7 million was amortization of debt issuance costs.

11 .Investment Funds

As of June 30, 2016, the Company had 17 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):

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 17,832	$ 12,014
Accounts receivable, net	9,288	3,063
Prepaid expenses and other current assets	802	121
Total current assets	27,922	15,198
Solar energy systems, net	1,208,794	990,609
Other non-current assets, net	1,190	18
Total assets	$ 1,237,906	$ 1,005,825
Liabilities		
Current liabilities:		
Distributions payable to non-controlling interests and redeemable non-controlling interests	$ 9,820	$ 11,347
Current portion of deferred revenue	8,169	4,824
Accrued and other current liabilities	7,208	3,869
Total current liabilities	25,197	20,040
Deferred revenue, net of current portion	37,505	43,094
Other non-current liabilities	1,779	3,283
Total liabilities	$ 64,481	$ 66,417

Residential Investment Funds

As of June 30, 2016, the Company had 17 residential investment funds. 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 June 30, 2016 and December 31, 2015, the cumulative total of contributions into the VIEs by all investors was $956.2 million and $773.0 million. Of these contributions, a cumulative total of $110.0 million was contributed by related parties in prior periods.

C&I Investment Fund

In June 2016, the Company terminated its C&I investment fund. No projects were purchased by the fund. As such, the Company did not have any assets or liabilities associated with the fund. In June 2016, the Company paid a fee of $1.0 million to the C&I fund investor to terminate the fund and release any and all claims.

Lease Pass-Through Financing Obligation

In July 2015, a wholly owned subsidiary of the Company entered into a lease pass-through fund arrangement under which the Company contributes solar energy systems and the investor contributes cash. The net carrying value of the related solar energy systems was $63.9 million and $64.7 million as of June 30, 2016 and December 31, 2015.

Under the arrangement, the fund investor makes a large upfront payment to the Company's subsidiary and subsequent periodic payments. The Company allocates a portion of the aggregate payments received from the fund investor to the estimated fair value of assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investor. The Company's subsidiary has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. Accordingly, the Company recognizes revenue as the recapture provisions lapse assuming all other revenue recognition criteria have been met. The unrecognized revenue allocated to ITCs is recorded as deferred revenue in the condensed consolidated balance sheets.

The Company accounts fo r the residual of the payments received from the fund investor, net of amounts allocated to ITCs, as a borrowing by recording the proceeds received as a lease pass-through financing obligation, which will be repaid through customer payments that will be re ceived 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 lessor or paid directly to the fund investor. A portion of the amounts received by the fund investor from customer payments is applied to reduce the lease pass-through financing obligation, and the balance is allocated to interest expense. The customer payments are recognized into revenue based on cash receipts during the period as required by GAAP.

As of June 30, 2016 and December 31, 2015, the Company had recorded financing liabilities of $44.5 million and $47.3 million related to this fund arrangement as deferred revenue in its condensed consolidated balance sheets.

Guarantees

With respect to the investment funds, the Company and the fund investors have entered into guaranty agreements under which the Company guarantees the performance of certain financial obligations of its subsidiaries to the investment funds. These guarantees do not result in the Company being required to make payments to the fund investors unless such payments are mandated by the investment fund governing documents and the investment fund fails to make such payment. The Company is contractually obligated to make certain VIE investors whole for losses that the investors may suffer in certain limited circumstances resulting from the disallowance or recapture of investment tax credits.

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. As discussed in "C&I Investment Fund" above, the Company paid a $1.0 million termination fee as of June 30, 2016 . As of June 30, 2016 and December 31, 2015, the Company had accrued $3.5 million and $5.2 million in distributions to reimburse fund investors a portion of their upfront lease payments and capital contributions in order to true-up the investors' expected rate of return primarily due to delays in solar energy systems being interconnected to the power grid.

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 June 30, 2016 and December 31, 2015, which is classified as restricted cash and cash equivalents on the condensed consolidated balance sheets.

12 .Redeemable Non-Controlling Interests and Equity

Common Stock

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

	June 30, 2016	December 31, 2015
Shares available for grant under equity incentive plans	10,287	12,267
Stock options issued and outstanding	8,441	9,277
Restricted stock units issued and outstanding	7,566	930
Long-term incentive plan	2,705	3,382
Total	28,999	25,856

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, 2015	$	169,541
Contributions from redeemable non-controlling interests		41,053
Distributions to redeemable non-controlling interests		(4,402)
Net loss		(55,506)
Balance as of June 30, 2016	$	150,686

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, 2015	$ 518,943	$ 90,309	$ 609,252
Stock-based compensation expense	2,467	—	2,467
Excess tax effects from stock-based compensation	(981)	—	(981)
Issuance of common stock	490	—	490
Contributions from non-controlling interests	—	142,210	142,210
Distributions to non-controlling interests	—	(5,885)	(5,885)
Net loss	(18,848)	(83,511)	(102,359)
Balance as of June 30, 2016	$ 502,071	$ 143,123	$ 645,194

Non-Controlling Interests and Redeemable Non-Controlling Interests

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

The purchase price for the fund investor’s interest in the six 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 six investment funds are exercisable beginning on the date that specified conditions are met for each respective fund. None of the Put Options are expected to become exercisable prior to 2019.

Because the Put Options represent redemption features that are not solely within the control of the Company, the non-controlling interests in these investment funds are presented outside of permanent equity. Redeemable non-controlling interests are reported using the greater of their carrying value at each reporting date (which is impacted by attribution under the hypothetical liquidation at book value method) or their estimated redemption value in each reporting period. The carrying values of redeemable non-controlling interests at June 30, 2016 and December 31, 2015 were greater than or equal to the redemption values.

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

13 .Equity Compensation Plans

Equity Incentive Plans

2014 Equity Incentive Plan

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

As of June 30, 2016, a total of 10.3 million shares of common stock are available to grant under the 2014 plan, subject to adjustment in the case of certain events. In addition, any shares that otherwise would be returned to the Omnibus Plan (as defined below) as the result of the expiration or termination of stock options may be added to the 2014 Plan. The number of shares available 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 4.3 million shares became available to grant at the beginning of 2016 under the 2014 Plan.

As of June 30 , 2016, there were 0.1 million time-based stock options, 6.0 million restricted stock units (“RSUs”), and 1.6 million performance share units (“PSUs”) outstanding under the 2014 Plan. The time-based options are subject to ratable time-based vesting over four years. The RSUs are subject to ratable time-based vesting over one to four years. The PSUs vest quarterly or annually over one to four years subject to individual participants’ achievement of respective quarterly or annual performance goals.

2013 Omnibus Incentive Plan; Non-plan Option Grant

The Company’s 2013 Omnibus Incentive Plan (the “Omnibus Plan”) was terminated in connection with the adoption of the 2014 Plan in September 2014, and accordingly no additional shares are available for grant under the Omnibus Plan. The Omnibus Plan will continue to govern outstanding awards granted under the plan.

During 2014 and 2013, the Company granted stock options of which one-third are subject to ratable time-based vesting over a five year period and two-thirds are subject to vesting upon certain performance conditions and the achievement of certain investment return thresholds by 313 Acquisition LLC, a subsidiary of the Company’s Sponsor. Certain of the performance options were modified as described in the section captioned “Equity Award Modifications”. The stock options have a ten-year contractual period.

Long-term Incentive Plan

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

As of June 30, 2016, 1.1 million shares of common stock had been awarded to participants under the LTIP. As of June 30, 2016, 2.7 million shares remained outstanding, as 0.3 million shares represented the exercise price that were returned to the 2014 Plan.

Equity Award Modifications

Former CEO Resignation

On May 2, 2016, the Company accepted the resignation of its former CEO. Pursuant to a separation agreement, the Company accelerated the vesting of 0.2 million of the former CEO’s stock options. Further, all of the CEO’s vested stock options were modified such that they will remain exercisable until the third anniversary of his termination date. As a result of these modifications, the Company recorded incremental stock-based compensation expense of $0.7 million.

Interim CEO Equity Awards

On May 2, 2016, the Company appointed an interim CEO. In connection with his appointment, the interim CEO was awarded 1.0 million stock options pursuant to the 2014 Plan. The stock options vest on the first anniversary of his start date, or, if earlier, on the date on which a successor CEO is appointed. On May 11, 2016, the Company cancelled such stock options and granted the interim CEO 0.5 million RSUs which vest on the first anniversary of his start date, or, if earlier, on the date on which a successor CEO is appointed. This was accounted for as a modification; however, there was no incremental value arising from the modification.

Omnibus Plan Performance Options

In May 2016, the Company modified the unvested Omnibus Plan performance options (the “Tier II Options”). The modified Tier II Options vest annually over three years with the first vesting date occurring in May 2017. The original performance condition for the Tier II Options remains in effect and will trigger immediate vesting of the Tier II Options if it is met prior to the three year time-based vesting period. Due to the modification, the Company now considers the Tier II Options to be time-based options. Additionally, the Company will record incremental stock-based compensation expense of approximately $1.5 million over the three year time-based vesting period, subject to immediate acceleration if the performance condition is met prior to the three year time-based vesting period.

Stock Options

Stock Option Activity

Stock options are granted under the 2014 Plan and Omnibus Plan as described above. Stock option activity for the six months ended June 30, 2016 was as follows (in thousands, except term and per share amounts):

	Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding—December 31, 2015	9,277	$ 1.36		$ 76,488
Granted	1,000	3.21		
Exercised	(379)	1.29		
Cancelled	(1,457)	2.79		
Outstanding—June 30, 2016	8,441	$ 1.34	6.7	$ 15,972
Options vested and exercisable—June 30, 2016	4,042	$ 1.28	6.5	$ 7,722
Options vested and expected to vest—June 30, 2016	5,872	$ 1.39	6.8	$ 11,023

The weighted-average grant date fair value of time-based stock options granted during the six months ended June 30, 2016 and 2015 was $2.23 and $9.39 per share. No performance-based stock options were granted during the six months ended June 30, 2016 and 2015. The total intrinsic value of options exercised for the six months ended June 30, 2016 and 2015 was $0.7 million and $6.7 million. Intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the common stock for the options that had exercise prices that were lower than the fair value per share of the common stock.

The total fair value of stock options vested for the six months ended June 30, 2016 and 2015 was $1.0 million and $13.8 million.

Determination of Fair Value of Stock Options

The Company estimates the fair value of the time-based stock options granted on each grant date using the Black-Scholes-Merton option pricing model and applies the accelerated attribution method for expense recognition. The fair values using the Black-Scholes-Merton method were estimated on each grant date using the following weighted-average assumptions:

	Six Months Ended June 30,	
	2016	2015
Expected term (in years)	5.5	6.2
Volatility	85.0%	89.0%
Risk-free interest rate	1.4%	1.8%
Dividend yield	0.0%	0.0%

Restricted Stock Units

RSUs are granted under the 2014 Plan and the LTIP as described above. RSU activity for the six months ended June 30, 2016 was as follows (awards in thousands):

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	930	$ 12.84
Granted	7,725	2.64
Vested	(740)	6.53
Forfeited	(349)	4.96
Outstanding at June 30, 2016	7,566	$ 3.40

The total fair value of RSUs vested was $ 2.6 million and $8.7 million for the six months ended June 30 , 2016 and 2015 . The Company determines the fair value of RSUs granted on each grant date based on the fair value of the Company's common stock on the grant date.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	$ 637	$ 2,295	$ 940	$ 2,573
Sales and marketing	1,613	9,070	1,613	9,303
General and administrative	(553)	6,432	553	8,610
Research and development	(855)	106	(639)	124
Total stock-based compensation	$ 842	$ 17,903	$ 2,467	$ 20,610

During the six months ended June 30, 2016, several of the Company's senior management, including the Company's former CEO, left the Company. The Company reversed all stock-based compensation expense for awards that were forfeited by the terminated employees, which reduced stock-based compensation expense for the three and six months ended June 30, 2016 below historical levels. As a result of these and other terminations, the Company increased its forfeiture rate during the six months ended June 30, 2016, which is reflected in stock-based compensation expense for the three and six months ended June 30, 2016.

Unrecognized stock-based compensation expense, net of estimated forfeitures, for time-based stock options, RSUs and PSUs as of June 30, 2016 was as follows (in thousands, except years):

	Unrecognized Stock-Based Compensation Expense	Weighted-Average Period of Recognition
Time-based stock options	$ 2,474	2.7
RSUs and PSUs	18,085	1.8
Total unrecognized stock-based compensation expense as of June 30, 2016	$ 20,559	

14 .Income Taxes

The income tax expense for the three months ended June 30, 2016 and 2015 was calculated on a discrete basis resulting in a consolidated quarterly effective income tax rate of (18.2)% and (19.4)%. For the six months ended June 30, 2016 and 2015, the Company's consolidated effective income rate was (9.1)% and (18.6)%. The variations between the consolidated effective income tax rate and the U.S. federal statutory rate for the three and six months ended June 30, 2016 were primarily attributable to the effect of non-controlling interests and redeemable non-controlling interests, and for the six months ended June 30, 2016, the goodwill impairment charge. The variations between the consolidated effective income tax rate and the U.S. federal statutory rate for the three and six months ended June 30, 2015 were primarily attributable to the effect of non-controlling interests and redeemable non-controlling interests.

The Company sells solar energy systems to the investment funds for income tax purposes. As the investment funds are consolidated by the Company, the gain on the sale of the solar energy systems is not recognized in the 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 $364.5 million and $277.5 million as of June 30, 2016 and December 31, 2015.

Uncertain Tax Positions

As of June 30, 2016 and December 31, 2015, the Company had no unrecognized tax benefits. There was no interest and penalties accrued for any uncertain tax positions as of June 30, 2016 and December 31, 2015. The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized benefits will increase or decrease within the next 12 months. The Company is subject to taxation and files income tax returns in the United States, and various state and local jurisdictions. Due to the Company's net losses, substantially all of its federal, state and local income tax returns since inception are still subject to audit.

15 .Related Party Transactions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue—operating leases and incentives	$ 869	$ 1,439	$ 2,016	$ 2,929
Sales and marketing	572	883	1,096	1,261
General and administrative	128	4,589	281	4,802

Vivint Services

The Company has negotiated and entered into a number of agreements with its sister company, APX Group, Inc. ("Vivint"), related to services and other support that Vivint provides to the Company. Under the terms of these agreements, Vivint primarily provides the Company with information technology and infrastructure and certain other services. The Company incurred fees under these agreements of $1.0 million and $2.3 million for the three months ended June 30, 2016 and 2015, which reflect the amount of services provided by Vivint on behalf of the Company. The Company incurred fees under these agreements of $2.4 million and $4.1 million for the six months ended June 30, 2016 and 2015.

Payables to Vivint recorded in accounts payable—related party were $0.5 million and $1.9 million as of June 30, 2016 and December 31, 2015. 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 $3.3 million and $2.9 million as of June 30, 2016 and December 31, 2015. The Company provided a reserve of $1.2 million and $0.7 million as of June 30, 2016 and December 31, 2015 related to advances to direct-sales personnel who have terminated their employment agreement with the Company.

Investment Funds

Fund investors for three of the funds are indirectly managed by the Sponsor and accordingly are considered related parties. The Company accrued equity distributions to these entities of $1.9 million and $1.7 million as of June 30, 2016 and December 31, 2015, included in distributions payable to non-controlling and redeemable non-controlling interests. See Note 11—Investment Funds. The Company has also entered into a Backup Maintenance Servicing Agreement with Vivint in which Vivint will provide maintenance servicing of the fund assets in the event that the Company is removed as the service provider for the funds. No services have been performed by Vivint under this agreement.

16 .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 $4.5 million and $2.4 million for the three months ended June 30, 2016 and 2015. The aggregate expense incurred under these operating leases was $8.6 million and $4.7 million for the six months ended June 30, 2016 and 2015.

Build-to-Suit Lease Arrangements

In September 2014, the Company entered into a non-cancellable lease whereby the Company would terminate the current lease for its corporate headquarters in Lehi, UT and move into another building (the "New Headquarters") that was being constructed in the same general location. Because of its involvement in certain aspects of the construction of the New Headquarters per the terms of the lease, t he Company was deemed the owner of the building for accounting purposes during the construction period. Accordingly, the Company recorded a build-to-suit lease asset and corresponding build-to-suit lease liabilities during the construction period.

In May 2016, construction on the New Headquarters was completed and the Company commenced occupancy. The building qualified for sale-leaseback treatment. As such, the Company removed the build-to-suit lease asset and liabilities from its condensed consolidated balance sheet as of June 30, 2016. The New Headquarters lease is classified and accounted for as a non-cancellable operating lease.

Letters of Credit

During the six months ended June 30, 2016, the Company fulfilled its obligations under a forward contract to sell SRECs entered into in November 2013. As a result, the related $ 1.8 million stand-by letter of credit that was outstanding at December 31, 2015 was cancelled during the six months ended June 30, 2016. The corresponding time deposit was released during the six months ended June 30, 2016.

As of June 30, 2016, the Company had established letters of credit under the Working Capital Facility for up to $7.4 million related to insurance contracts.

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 11—Investment Funds.

Legal Proceedings

In September 2014, two former installation technicians of the Company, on behalf of themselves and a purported class, filed a complaint for damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against the Company and unnamed John Doe defendants. The complaint alleges certain violations of the California Labor Code and the California Business and Professions Code based on, among other things, alleged improper classification of installer technicians, installer helpers, electrician technicians and electrician helpers, failure to pay minimum and overtime wages, failure to provide accurate itemized wage statements, and failure to provide wages on termination. In December 2014, the original plaintiffs and three additional plaintiffs filed an amended complaint with essentially the same allegations. On November 5, 2015, the parties agreed to preliminary terms of a settlement of all claims related to allegations in the complaint in return for the Company's payment of $1.7 million to be paid out to the purported class members. The settlement agreement has received preliminary approval from the Court, with final approval hearing set for September 30, 2016. As of June 30, 2016, a $1.7 million reserve was recorded related to this proceeding in the Company's condensed consolidated financial statements.

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

On July 31, 2015, a putative class action lawsuit was filed in the Court of Chancery State of Delaware against the Company's directors, SunEdison, and TerraForm Power ("TerraForm"), alleging that the proposed acquisition by SunEdison is unfair to the Company's stockholders. On August 7, 2015, a second putative class action lawsuit was filed in the same court alleging similar claims, and including 313, Acquisition, LLC as a named defendant. Both complaints seek injunctive relief and unspecified damages. On or about September 10, 2015, two purported class action lawsuits were also filed in Utah's Fourth District State Court (the "Utah Actions"), alleging similar claims to the complaints previously filed in the Delaware Chancery Court. On September 22, 2015, the Company, through counsel notified plaintiff's counsel in the Utah Actions that pursuant to the Company's Articles of Incorporation, any such derivative action was subject to exclusive jurisdiction in the Delaware Chancery Court, and accordingly, the Utah Actions should be dismissed. After a December 2015 amendment to the proposed acquisition, a new complaint was filed in the Delaware Chancery Court on January 11, 2016. As a result of the termination of the SunEdison acquisition, plaintiffs filed a motion for voluntary dismissal of the complaint in this action. On April 20, 2016, the Delaware court entered the dismissal of this case.

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

On March 8, 2016, the Company filed suit in the Court of Chancery State of Delaware against SunEdison and SEV Merger Sub Inc. alleging that SunEdison willfully breached its obligations under the Merger Agreement pursuant to which the Company was to be acquired and breached its implied covenant of good faith and fair dealing. The Company is seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just. On April 21, 2016, SunEdison filed for Chapter 11 bankruptcy, thereby creating a temporary stay on the prosecution of the Company's litigation in the Delaware court. The Company is participating in the bankruptcy case so as to maximize the recovery from the claims against SunEdison. On July 7, 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 March 2016, a civil complaint was filed against the Company alleging negligence and related claims arising from damage to a customer's residence. In June 2016, the Company reached agreement between the Company, the plaintiffs and the Company's liability insurance provider to participate in an arbitration proceeding that will determine the extent of the damages – with a minimum amount set at $1.0 million and a maximum amount set at $3.0 million. Based on the above agreement, a $1.0 million reserve was recorded related to this matter in the Company's condensed consolidated financial statements. The Company anticipates that the entirety of any damage award will be satisfied by its liability insurance provider and a related $1.0 million receivable was recorded in its condensed consolidated financial statements.

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 condensed consolidated financial position, results of operations or cash flows.

The Company accrues for losses that are probable and can be reasonably estimated. The Company evaluates the adequacy of its legal reserves based on its assessment of many factors, including interpretations of the law and assumptions about the future outcome of each case based on available information.

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

The 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 six months ended June 30, 2016 and 2015 (in thousands, except per share amounts):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Numerator:				
Net income available (loss attributable) to common stockholders	$ 12,371	$ 13,653	$ (18,848)	$ 25,802
Denominator:				
Shares used in computing net income available (loss attributable) per share to common stockholders, basic	107,226	105,988	106,922	105,647
Weighted-average effect of potentially dilutive shares to purchase common stock	4,154	3,806	—	3,777
Shares used in computing net income available (loss attributable) per share to common stockholders, diluted	111,380	109,794	106,922	109,424
Net income available (loss attributable) per share to common stockholders:				
Basic	$ 0.12	$ 0.13	$ (0.18)	$ 0.24
Diluted	$ 0.11	$ 0.12	$ (0.18)	$ 0.24

In May 2016, the Company modified the unvested performance stock options to vest annually over three years with the first vesting date occurring in May 2017. See Note 13—Equity Compensation Plans. As such, all stock options were considered in the computation of diluted net income (loss) per share on a weighted-average basis for the three months ended June 30, 2016. For the three months ended June 30, 2016, 0.5 million shares were excluded from the dilutive share calculations as the effect on net income per share would have been anti-dilutive. For the six months ended June 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. For the three and six months ended June 30, 2015, a de minimis number of shares were excluded from the dilutive share calculations as the effect on net income per share would have been anti-dilutive.

As of June 30, 2015, stock-based awards for 3.4 million underlying shares of common stock were subject to performance conditions that had not yet been met. Accordingly, these performance-based stock awards were not included in the computation of diluted net income per share for the three and six months ended June 30, 2015. In addition, awards remaining to be granted under the LTIP Pools were not included in the computation of diluted net income per share as these shares had not been granted as of June 30, 2016 and 2015.

18 .Segment Information

Since the second quarter of 2015, the Company had aligned its operations as two reporting segments, (1) Residential and (2) C&I, as the result of entering into a C&I investment fund with plans to service customers in the C&I market. During that time, no projects were initiated within the fund and no revenue was recorded in the C&I segment. In June 2016, the Company ended its C&I investment fund and settled with a $1.0 million termination fee. As a result of this termination, the Company realigned and consolidated its reporting segments as the Residential segment, which is now the Company's only reporting segment. No restatement of prior periods is necessary, as the restated prior periods are the previously disclosed condensed consolidated statements of operations for quarterly reporting.

Operating expenses in the C&I segment included sales and marketing and general and administrative. For the three and six months ended June 30, 2016, sales and marketing expenses were a de minimis amount and $0.3 million. For the three and six months ended June 30, 2016, general and administrative expenses were $(0.9) million and $1.5 million. In the first quarter of 2016, the Company had accrued a $2.1 million non-utilization fee which was subsequently settled with a $1.0 million termination fee in the second quarter of 2016. The reduction in the accrual was recognized in C&I general and administrative expenses during the three months ended June 30, 2016. The Company did not have any assets or liabilities associated with the C&I fund. For additional information regarding the termination of the C&I investment fund, see Note 11—Investment Funds.

19 .Subsequent Events

On August 4, 2016, the Company entered into a credit agreement (the "Term Loan Facility") pursuant to which it may borrow up to an aggregate principal amount of $313.0 million with certain financial institutions for which Investec Bank PLC is acting as administrative agent, issuing bank, joint bookrunner and joint lead arranger. The borrower under the Term Loan Facility is Vivint Solar Financing II, LLC, a wholly owned indirect subsidiary of the Company. Upon closing, the Company's subsidiary incurred $300.0 million aggregate principal amount of term borrowings and may draw up to $13.0 million of letters of credit. Proceeds of the Term Loan Facility will be used to (1) repay existing indebtedness under the Aggregation Facility with respect to the portfolio of projects being used as collateral for the Term Loan Facility (the "Portfolio"), (2) fund the debt service reserve account if not funded through the letter of credit facility and other agreed reserves, (3) pay transaction costs and fees in connection with the Term Loan Facility and (4) distribute to the Company as reimbursement for capital costs associated with deployment of the Portfolio. An escrow account will be established with respect to a portion of the term borrowings with respect to those systems in the Portfolio that have not been placed in service as of the closing date, with a single disbursement of such remaining amounts to occur once such systems have been placed in service, subject to compliance with the Portfolio concentration restrictions and limitations related to the Portfolio.

For the initial four years of the term of the Term Loan Facility, interest on borrowings accrue at an annual rate equal to LIBOR plus 3.00%. Thereafter interest accrues at an annual rate equal to LIBOR plus 3.25%. In addition, the Company is required to enter into interest rate hedging arrangements with the joint lead arrangers or their affiliates such that at least 75% of the aggregate principal amount of the outstanding term loans are subject to a fixed interest rate or other interest rate protection by no later than 30 business days following the closing date of the Term Loan Facility. Certain principal payments are due on a quarterly basis, at the end of January, April, July and October of each year, subject to the occurrence of certain events, including failure to meet certain distribution conditions, proceeds received by the borrower or subsidiary guarantors in respect of casualties, and proceeds received for purchased systems. Principal and interest payable under the Term Loan Facility mature in five years and optional prepayments, in whole or in part, are permitted under the Term Loan Facility, without premium or penalty apart from any customary LIBOR breakage provisions.

The 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 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 shall be funded at closing in an amount at least equal to the next six months of scheduled principal and interest associated with the term borrowings, and the borrower is required to maintain an average debt service coverage ratio of 1.55 to 1.

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 shall guarantee certain obligations of the borrower under the Term Loan Facility.

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 income tax credit, or ITC, beginning in 2020;
- the price of utility-generated electricity and electricity from other sources;
- our ability to finance the installation of solar energy systems;
- our ability to efficiently install and interconnect solar energy systems to the power grid;
- our ability to sustain and manage growth while reducing and managing costs;
- our ability to further penetrate existing markets and expand into new markets;
- our ability to develop new product offerings and distribution channels;
- our relationship with our sister company APX Group, 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;
- our ability to maintain our brand and protect our intellectual property; and
- our expectation regarding remediation of the material weakness in our internal control over financial reporting.

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

We sell the electricity that our solar energy systems produce through long-term power purchase agreements or lease solar energy systems through long-term leases. Under either contract type, we install our solar energy system at our customer's h ome and bill the customer monthly. In the second quarter of 2016, we became more selective in our installation policies to increase incremental value by limiting the installation of smaller system sizes and limi ti ng installations on certain roof types. We will continue to review installation policies as our processes become more efficient and power rates increase. In the power purchase agreement structure, we charge customers a fee per kilowatt hour based on the amount of electricity the solar energy system actually produces. In the lease structure, the customer's monthly payment is fixed based on a calculation that takes into account expected solar energy generation. We provide our lease customers a performance guarantee, under which we agree to make a paym ent at the end of each year to the customer if the solar energy system does not meet the guaranteed production level in the prior 12-month period. The power purchase agreement and lease terms are typically for 20 years, and virtually all the prices that we charge to our customers are subject to pre-determined annual fixed percentage price escalations as specified in the customer contract. We do not believe that either form of long-term customer contract is materially more advantageous to us than the other. We also offer our customers the option to purchase solar energy systems through a third-party loan offering or cash purchase.

We compete mainly with traditional utilities. In the markets we serve, our strategy is to price the energy we sell below prevailing retail electricity rates. As a result, the price our customers pay to buy energy from us varies depending on the state where the customer is located and the local traditional utility. In markets that are also served by other distributed solar energy system providers, the price we charge also depends on customer price sensitivity, the need to offer a compelling financial benefit and the price other solar energy companies charge in the region. We have also begun changing our pricing in certain markets to maximize returns on investment. We will continue to evaluate our pricing in all markets on a quarterly basis and make adjustments to optimize our use of capital based on market conditions and utility rates. In addition, we have renewed collaboration on a joint lead generation program with our sister company Vivint with the goal of driving additional growth.

Our ability to offer long-term customer contracts depends in part on our ability to finance the installation of the solar energy systems by co-investing or entering into lease arrangements with fund investors who value the resulting customer receivables and investment tax credits, accelerated tax depreciation and other incentives related to the solar energy systems through structured investments known as "tax equity." As of July 31, 2016, we had raised 17 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion, which will enable us to install solar energy systems of total fair market value approximating $2.8 billion. As of July 31, 2016, we had residential tax equity commitments to fund approximately 24 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $98 million. The terms and conditions of each investment fund vary significantly by investor and by fund. We continue to negotiate with financial investors to create additional investment funds.

Our investment funds have adopted the partnership flip, inverted lease or lease pass-through structures. Our partnership flip and inverted lease investment funds are considered variable interest entities, and we have determined that we are the primary beneficiary of them for accounting purposes. Accordingly, we consolidate the assets and liabilities and operating results of these entities 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 statement of operations, may create significant volatility in our reported results of operations, including potentially changing net income available (loss attributable) to common stockholders from income to loss, or vice versa, from quarter to quarter. Our lease pass-through structure is a wholly owned subsidiary and therefore is also consolidated in our condensed consolidated financial statements.

On July 20, 2015, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with SunEdison , Inc., a Delaware corporation, or SunEdison, and SEV Merger Sub, Inc., a wholly-owned subsidiary of SunEdison. The Merger Agreement was subsequently amended on December 9, 2015 to update the terms of the merger. We terminated the Merger Agreement on March 7, 2016. On March 8, 2016, we filed suit against SunEdison alleging that SunEdison willfully breached its obligations under the Merger Agreement and breached its implied covenant of good faith and fair dealing.

Recent Developments

Change in Executive Leadership

In May 2016, our board of directors accepted Greg Butterfield's resignation from the board and from his position as president and chief executive officer of our company. Pursuant to a separation agreement and release of claims entered into with the company, Mr. Butterfield will receive payments and benefits, including a severance payment of $1.0 million, payable over an 18-month period, the acceleration of 0.2 million options to purchase shares of the company's common stock and modification of all vested stock options to be exercisable until the third anniversary of his termination date. As a result of the modifications, we recorded incremental stock-based compensation expense of $0.7 million during the six months ended June 30, 2016.

We also announced the a ppointment of David Bywater as our interim chief executive officer. Mr. Bywater will serve as our primary executive officer while we conduct a search for a new chief executive officer. Mr. Bywater will take a leave of absence from his current employer, Viv int, while he serves as our interim chief executive officer.

Term Loan Facility

On August 4, 2016, we entered into a credit agreement, or the Term Loan Facility, pursuant to which we may borrow up to an aggregate principal amount of $313.0 million with certain financial institutions for which Investec Bank PLC is acting as administrative agent, issuing bank, joint bookrunner and joint lead arranger. The borrower under the Term Loan Facility is Vivint Solar Financing II, LLC, our wholly-owned indirect subsidiary. Pursuant to the Term Loan Facility, our subsidiary incurred $300.0 million aggregate principal amount of term borrowings and may draw up to $13.0 million of letters of credit. Proceeds of the Term Loan Facility will be used to (1) repay existing indebtedness under the Aggregation Facility (as defined in the section captioned "Liquidity and Capital Resources — Aggregation Credit Facility") with respect to the portfolio of projects being used as collateral for the Term Loan Facility, or the Portfolio, (2) fund the debt service reserve account if not funded through the letter of credit facility and other agreed reserves, (3) pay transaction costs and fees in connection with the Term Loan Facility and (4) distribute to us as reimbursement for capital costs associated with deployment of the Portfolio. For additional details regarding the Term Loan Facility, please see the section captioned "Liquidity and Capital Resources — Sources of Funds."

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. As our commercial and industrial, or C&I, fund was not operational during the six months ended June 30, 2016 and was terminated as of June 30, 2016, the following metrics do not include any C&I activity.

- *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 agreements with us for systems installed as of the measurement date. For a power purchase agreement, we multiply the contract price per kilowatt-hour by the estimated annual energy output of the associated solar energy system to determine the estimated nominal contracted payments. For a customer lease, we include the monthly fees and upfront fee, if any, as set forth in the lease.
- *Estimated retained value* . Estimated retained value represents the net cash flows discounted at 6% that we expect to receive from customers pursuant to long-term customer contracts net of estimated cash distributions to fund investors and estimated operating expenses for systems installed as of the measurement date.
- *Estimated retained value under energy contracts* . Estimated retained value under energy contracts represents the estimated retained value from the solar energy systems during the typical 20-year term of our contracts.
- *Estimated retained value of renewal* . Estimated retained value of renewal represents the estimated retained value associated with an assumed 10-year renewal term following the expiration of the initial contract term. To calculate estimated retained value of renewal, we assume all contracts are renewed at 90% of the contractual price in effect at the expiration of the initial term.

- *Estimated retained value per watt* . Estimated retained value per watt is calculated by dividing the estimated retained value as of the measurement date by the aggregate nameplate capacity of solar energy systems under long-term customer contracts that have been installed as of such date, and is subject to the same assumptions and uncertainties as estimated retained value.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Solar energy system installations	8,641	9,312	16,345	15,738
Megawatts installed	61.4	65.5	116.3	111.7

	June 30, 2016	December 31, 2015
Cumulative solar energy system installations	84,872	68,527
Cumulative megawatts installed	575.2	458.9
Estimated nominal contracted payments remaining (in millions)	$ 2,255.3	$ 1,871.9
Estimated retained value under energy contracts (in millions)	$ 862.0	$ 705.6
Estimated retained value of renewal (in millions)	$ 252.9	$ 200.5
Estimated retained value (in millions)	$ 1,115.0	$ 906.1
Estimated retained value per watt	$ 1.95	$ 1.98

Seasonality

We experience seasonal fluctuations in our operations. For example, the amount of revenue we recognize in a given period from power purchase agreements is dependent in part on the amount of energy generated by solar energy systems under such contracts. As a result, operating leases and incentives revenue is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather. For example, we have limited ability to install solar energy systems during the winter months in the Northeastern United States. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our 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 require 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; investment tax credits; revenue recognition; solar energy systems, net; impairment analysis of long-lived assets; goodwill impairment analysis; the recognition and measurement of loss contingencies; stock-based compensation; provision for income taxes; and non-controlling interests and redeemable non-controlling interests have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

During the six months ended June 30, 2016, we had a change in estimate regarding the carrying value of our 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 million as of March 31, 2016. We considered this significant decrease in market capitalization to be an indicator of impairment, and we performed a test for potential impairment as of March 31, 2016. The completion of the impairment test resulted in the determination that our goodwill balance of $36.6 million was fully impaired. See Note 7—Intangible Assets and Goodwill.

During the six months ended June 30, 2016, we consolidated our reporting segments as the Residential segment, which is now our only reporting segment. See Note 18—Segment Information. There have been no other material changes to these critical accounting policies and estimates from those disclosed in our annual report on Form 10-K for the year ended December 31, 2015 .

Components of Results of Operations

Revenue

We classify and account for long-term customer contracts as operating leases. We consider the proceeds from solar energy system rebate incentives offered by certain state and local governments to form part of the payments under our operating leases and recognize such payments as revenue over the contract term. We record revenue from our operating leases over the term of our long-term customer contracts, which is typically 20 years. We also apply for and receive solar renewable energy certificates, or SRECs, in certain jurisdictions for power generated by our solar energy systems. We generally recognize revenue related to the sale of SRECs upon delivery. The market for SRECs is extremely volatile and sellers are often able to obtain better unit pricing by selling a large quantity of SRECs. As a result, we may sell SRECs infrequently, at opportune times and in large quantities, which may lead to fluctuations in our quarterly results. During the three months ended June 30, 2016 and 2015, approximately 15% and 9% of our revenue was attributable to SREC sales. During the six months ended June 30, 2016 and 2015, approximately 16% and 13% of our revenue was attributable to SREC sales. Less than 1% of our revenue was attributable to state and local rebates and incentives in all periods presented. There were no C&I revenues recognized in the periods presented.

We recognize revenue related to the sale of solar energy systems to customers when interconnected to the power grid. We also recognize revenue related to the sale of photovoltaic installation devices and software products, a portion of which consists of post-contract customer support. In the second quarter of 2016, we resumed external sales of the SunEye product, which sales had been discontinued in the first quarter of 2015. These resumed sales were not significant for the three or six months ended June 30, 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Operating leases and incentives	$ 30,061	$ 15,301	$ 46,639	$ 23,881
Solar energy system sales	4,525	225	4,646	301
Photovoltaic installation devices and software products	318	609	849	1,498
Total revenue	$ 34,904	$ 16,135	$ 52,134	$ 25,680

Operating Expenses

Cost of Revenue. Cost of operating leases and incentives is comprised of solar energy system depreciation and amortization of initial direct costs; and indirect costs related to the processing, account creation, design, installation, interconnection and servicing of solar energy systems, including personnel costs not directly associated to a solar energy system installation, stock-based compensation, warehouse rent, utilities, fleet vehicle executory costs and solar energy system inventory write-offs. Under our direct sales model, a vast majority of payments to our direct sales personnel are customer acquisition commissions, which are capitalized as initial direct costs. The cost related to the sales of SRECs is limited to broker fees, which are only paid in connection with certain transactions. Accordingly, the sale of SRECs in a quarter favorably impacts our operating results for that period. We expect our cost of operating leases and incentives revenue will increase in absolute dollars in the second half of 2016 compared to the first half of 2016.

Cost of solar energy system and product sales consists of direct and indirect material and labor costs for solar energy systems sold to customers. It also consists of materials, personnel costs, depreciation, facilities costs, other overhead costs and infrastructure expenses associated with the manufacturing of photovoltaic installation devices and software products. We recognize the cost of solar energy system and product sales as the solar energy systems sold to customers are interconnected to the power grid and other revenue recognition criteria are met. We expect our cost of solar energy system and product sales will increase in absolute dollars in the second half of 2016 compared to the first half of 2016 as we continue to increase the sales of solar energy systems.

Sales and Marketing Expenses. Sales and marketing expenses include personnel costs, such as salaries, benefits, bonuses and stock-based compensation for our corporate sales and marketing employees and exclude costs related to our direct sales personnel that are accounted for as cost of revenue. Sales and marketing expenses also include advertising, promotional and other marketing-related expenses; certain allocated corporate overhead costs related to facilities and information technology; travel, professional services and costs related to customer cancellations. We expect sales and marketing costs will be consistent in absolute dollars in the second half of 2016 compared to the first half of 2016.

Research and Development. Research a nd development expense is comprised primarily of the salaries , benefits and stock-based compensation of certain employees and other costs related to the development of photovoltaic installation devices and software products and the development of other sol ar technologies. Research and development costs are charged to expense when incurred. We expect research and development costs will increase in absolute dollars in the second half of 2016 compared to the first half of 2016.

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. We continue to use information and technology resources and systems administered by Vivint. We expect that general and administrative expenses will increase in absolute dollars in the second half of 2016 compared to the first half of 2016.

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. We expect amortization of intangible assets to remain consistent in absolute dollars in the second half of 2016 compared to the first half of 2016.

Impairment of Goodwill and Intangible Assets. 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 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 resulted in the determination that our goodwill balance of $36.6 million was fully impaired. See Note 7—Intangible Assets and Goodwill.

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

Non-Operating Expenses

Interest Expense. Interest expense primarily consists of interest charges associated with our indebtedness, including the amortization of debt issuance costs and the interest components of the lease pass-through financing obligation and capital lease obligations. In the future, we expect to incur additional indebtedness to fund our operations and that our interest expense would correspondingly increase in absolute dollars. Additionally, our debt facilities accrue interest at floating rates and increases in the floating rates would result in higher interest expense.

Other Expense. Other expense has primarily consisted of interest and penalties associated with tax payments that were not paid in a timely manner.

Income Tax Expense. 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 to Common Stockholders

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

Results of Op erations

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Revenue:				
Operating leases and incentives	$ 30,061	$ 15,301	$ 46,639	$ 23,881
Solar energy system and product sales	4,843	834	5,495	1,799
Total revenue	34,904	16,135	52,134	25,680
Operating expenses:				
Cost of revenue—operating leases and incentives	38,538	33,295	76,298	57,175
Cost of revenue—solar energy system and product sales	3,716	476	4,138	914
Sales and marketing	10,813	18,697	23,461	25,130
Research and development	144	920	1,376	1,502
General and administrative	18,064	31,364	40,984	49,994
Amortization of intangible assets	155	3,721	420	7,484
Impairment of goodwill and intangible assets	—	—	36,601	4,506
Total operating expenses	71,430	88,473	183,278	146,705
Loss from operations	(36,526)	(72,338)	(131,144)	(121,025)
Interest expense	7,413	2,730	13,178	4,857
Other expense	309	60	339	373
Loss before income taxes	(44,248)	(75,128)	(144,661)	(126,255)
Income tax expense	8,055	14,577	13,204	23,425
Net loss	(52,303)	(89,705)	(157,865)	(149,680)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	(64,674)	(103,358)	(139,017)	(175,482)
Net income available (loss attributable) to common stockholders	$ 12,371	$ 13,653	$ (18,848)	$ 25,802

Comparison of Three Months Ended June 30, 2016 and 2015

Revenue

	Three Months Ended June 30,		$ Change
	2016	2015	2016 from 2015
	(In thousands)		
Total revenue	$ 34,904	$ 16,135	$ 18,769

The $18.8 million increase was primarily due to an $11.1 million increase in operating lease revenue as the total megawatts of solar energy systems placed in service increased 92%. In addition, solar energy system sales revenue increased $4.3 million primarily as a result of our emphasis on solar energy system sales, and SREC sales increased $3.6 million driven by the increased solar energy systems placed in service. These increases were partially offset by a $0.3 million decrease in photovoltaic device and software products revenue.

Operating Expenses

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change 2016 from 2015
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$ 38,538	$ 33,295	$ 5,243
Cost of revenue—solar energy system and product sales	3,716	476	3,240
Sales and marketing	10,813	18,697	(7,884)
Research and development	144	920	(776)
General and administrative	18,064	31,364	(13,300)
Amortization of intangible assets	155	3,721	(3,566)
Total operating expenses	$ 71,430	$ 88,473	$ (17,043)

Cost of Revenue—operating leases and incentives . The $5.2 million increase was primarily due to a $4.7 million increase in depreciation and amortization of solar energy systems due to the increase in the number of solar energy systems placed in service. Warehouse, office and other installation costs increased $3.8 million due to increased installations and a 23% increase in warehouses in operation. These increases were partially offset by a $1.7 million decrease in stock-based compensation primarily due to performance options that vested in 2015, a $0.9 million decrease primarily due to reductions in vehicles under capital leases and a $0.7 million decrease in personnel supplies.

Cost of Revenue—solar energy system and product sales . The $3.2 million increase was primarily due to the higher volume of solar energy systems sold in the second quarter of 2016.

Sales and Marketing Expense . The $7.9 million decrease was primarily due to a $7.5 million decrease in stock-based compensation driven by higher expense in the second quarter of 2015 and a decreased stock price in 2016. Stock-based compensation expense in 2015 was driven higher primarily due to the grant and vesting of shares issued to sales personnel under the Long-Term Incentive Plan, or LTIP, and the vesting of options due to a performance condition being met. Total stock-based compensation expense is adjusted for the majority of sales and marketing participants based on our stock price, which declined significantly from June 30, 2015 to June 30, 2016.

Research and Development Expense . The $0.8 million decrease was primarily due to a $1.0 million decrease in stock-based compensation primarily driven by the forfeiture of unvested stock options for an executive who left the company in the second quarter of 2016.

General and Administrative Expense . The $13.3 million decrease was primarily due to a $7.0 million decrease in stock-based compensation primarily due to performance options that vested in 2015 and the forfeiture of unvested stock options for executives who left our company in the second quarter of 2016. Additionally, professional fees related to initiating and servicing tax equity investment funds decreased by $6.9 million as fewer funds were closed in the second quarter of 2016 than in the corresponding period from 2015. Other professional fees decreased by $1.1 million primarily due to decreased costs incurred for reliance on information technology services provided by Vivint. We relieved $1.1 million of the previously accrued C&I non-utilization fee as we terminated and settled the C&I fund with a $1.0 million fee in the second quarter 2016. Compensation and benefits decreased $0.8 million. These decreases were partially offset by $2.8 million in legal and other costs related to the failed acquisition by SunEdison and $1.5 million in severance and other costs for senior management who left the company.

Amortization of Intangible Assets. The $3.6 million decrease was due to our customer contracts intangible asset that was fully amortized in 2015.

Non-Operating Expenses

	Three Months Ended June 30,		$ Change
	2016	2015	2016 from 2015
	(In thousands)		
Interest expense	$ 7,413	$ 2,730	$ 4,683
Other expense	309	60	249

Interest Expense. Interest expense increased $4.7 million primarily due to the cost of financing additional borrowings year over year.

Other Expense . The increase in other expenses was primarily due to an increase in tax-related interest and penalties.

Income Taxes

	Three Months Ended June 30,		$ Change
	2016	2015	2016 from 2015
	(In thousands)		
Income tax expense	$ 8,055	$ 14,577	$ (6,522)

The $6.5 million decrease in income tax expense was primarily attributable to the 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 June 30,		$ Change
	2016	2015	2016 from 2015
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$ (64,674)	$ (103,358)	$ 38,684

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 current period decrease in net loss attributable to non-controlling interests and redeemable non-controlling interests was due to the signing of fund amendments in the prior year allowing for bonus tax depreciation to be allocated to the fund investors solely in 2015. This one-time allocation of bonus tax depreciation significantly reduced the fund investors' tax capital accounts leading to an increased HLBV loss in 2015. Also, a tax equity fund is operational in 2016 that does not use the HLBV method to allocate gains and losses, which resulted in no HLBV gain or loss being allocated to the fund investor in the current period.

Comparison of Six Months Ended June 30, 2016 and 2015

Revenue

	Six Months Ended June 30,		$ Change
	2016	2015	2016 from 2015
	(In thousands)		
Total revenue	$ 52,134	$ 25,680	$ 26,454

The $26.5 million increase was primarily due to a $17.4 million increase in operating lease revenue as the total megawatts of solar energy systems placed in service increased 92%. In addition, SREC sales increased $5.3 million primarily driven by the increased solar energy systems placed in service and solar energy system sales revenue increased $4.3 million primarily as a result of our emphasis on solar energy system sales. These increases were partially offset by a $0.6 million decrease in photovoltaic device and software products revenue.

Operating Expenses

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change 2016 from 2015
	(In thousands)		
Operating expenses:			
Cost of revenue—operating leases and incentives	$ 76,298	$ 57,175	$ 19,123
Cost of revenue—solar energy system and product sales	4,138	914	3,224
Sales and marketing	23,461	25,130	(1,669)
Research and development	1,376	1,502	(126)
General and administrative	40,984	49,994	(9,010)
Amortization of intangible assets	420	7,484	(7,064)
Impairment of goodwill and intangible assets	36,601	4,506	32,095
Total operating expenses	$ 183,278	$ 146,705	$ 36,573

Cost of Revenue—operating leases and incentives . The $19.1 million increase was primarily due to a $9.3 million increase in depreciation and amortization of solar energy systems primarily due to the increase in the number of solar energy systems placed in service. Warehouse, office and other installation costs increased $6.2 million due to increased installations and a 23% increase in warehouses in operation. Compensation and benefits increased $5.6 million due to a 15% increase in average headcount. These increases were partially offset by a $1.6 million decrease in stock-based compensation primarily due to performance options that vested in 2015 and a $1.0 million decrease due to reductions in vehicles under capital leases.

Cost of Revenue—solar energy system and product sales . The $3.2 million increase was primarily due to the higher volume of solar energy systems sold in the second quarter of 2016.

Sales and Marketing Expense . The $1.7 million decrease was primarily due to $7.7 million decrease in stock-based compensation driven by higher expense in 2015 and a decreased stock price in 2016. Stock-based compensation expense in 2015 was driven higher primarily due to the grant and vesting of shares issued to sales personnel under the Long-Term Incentive Plan, or LTIP, and the vesting of options due to a performance condition being met. Total stock-based compensation expense is adjusted for the majority of sales and marketing participants based on our stock price, which declined significantly from June 30, 2015 to June 30, 2016. This decrease was partially offset by a $3.1 million increase in compensation and benefits primarily due to a 37% increase in average headcount. Additionally, sales and marketing administrative costs increased $2.6 million due to contracted services and unrecovered advances.

Research and Development Expense . The $0.1 million decrease was primarily due to a $0.8 decrease in stock-based compensation primarily driven by the forfeiture of unvested stock options for an executive who left our company in the second quarter of 2016. This decrease was partially offset by an increase in compensation and benefits of $0.6 million primarily due to a 61% increase in average headcount.

General and Administrative Expense . The $9.0 million decrease was primarily due to an $8.0 million decrease in stock-based compensation primarily due to performance options that vested in 2015 and the forfeiture of unvested stock options for executives who left the company in the second quarter of 2016. Additionally, professional fees related to initiating and servicing tax equity investment funds decreased by $7.6 million as fewer funds were closed in the first half of 2016 than in the corresponding period from 2015. Other professional fees decreased by $1.3 million primarily due to decreased reliance on information technology services provided by Vivint. These decreases were partially offset by a $4.6 million increase in legal and other fees related to the failed acquisition by SunEdison and a $0.9 million increase in insurance costs. Additionally, severance and other costs of $1.5 million were incurred for senior management who left the company in 2016 and a $1.0 million fee was incurred to terminate and settle the C&I investment fund.

Amortization of Intangible Assets. The $7.1 million decrease was primarily due to a $7.3 million decrease in amortization related to our customer contracts intangible asset as it became fully amortized in 2015.

Impairment of Goodwill and Intangible Assets. 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 during the six months ended June 30, 2016. An impairment charge of $4.5 million was recorded in 2015 to write down the value of intangibles associated with two Vivint Solar Labs products for which external sales were discontinued.

Non-Operating Expenses

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change 2016 from 2015
	(In thousands)		
Interest expense	$ 13,178	$ 4,857	$ 8,321
Other expense	339	373	(34)

Interest Expense. Interest expense increased $8.3 million primarily due to the cost of financing additional borrowings year over year.

Income Taxes

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change 2016 from 2015
	(In thousands)		
Income tax expense	$ 13,204	$ 23,425	$ (10,221)

The $10.2 million decrease in income tax expense was primarily attributable to the effect of non-controlling interests and redeemable non-controlling interests and the goodwill impairment charge.

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change 2016 from 2015
	(In thousands)		
Net loss attributable to non-controlling interests and redeemable non-controlling interests	$ (139,017)	$ (175,482)	$ 36,465

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 current period decrease in net loss attributable to non-controlling interests and redeemable non-controlling interests was due to the signing of fund amendments in the prior year allowing for bonus tax depreciation to be allocated to the fund investors solely in 2015. This one-time allocation of bonus tax depreciation significantly reduced the fund investors' tax capital accounts leading to an increased HLBV loss in 2015. Also, a tax equity fund is operational in 2016 that does not use the HLBV method to allocate gains and losses, which resulted in no HLBV gain or loss being allocated to the fund investor in the current period.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash equivalents of $69.6 million, which consisted principally of cash and time deposits with high-credit-quality financial institutions. As discussed in Note 10—Debt Obligations and Note 11—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 fund ing 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 commi tments, 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 ne eds 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 cos t of capital could increase, or we may be required to significantly reduce the scope of our operations, any of which would have a material adverse effect on our business, financial condition, results of operations and prospects. While we believe additional financing is available and will continue to be available to support our current level of operations, we believe we have the ability and intent to reduce operations to the level of available financial resources at least through June 30 , 2017 .

Sources of Funds

Investment Fund Commitments

As of July 31, 2016, we have raised 17 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion, which will enable us to install solar energy systems of total fair market value approximating $2.8 billion. The undrawn committed capital for these funds as of July 31, 2016 is approximately $69 million, which includes approximately $42 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 July 31, 2016, we had tax equity commitments to fund approximately 24 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $98 million.

Debt Instruments

Term Loan Facility. On August 4, 2016, we entered into the Term Loan Facility pursuant to which we may borrow up to an aggregate principal amount of $313.0 million with certain financial institutions for which Investec Bank PLC is acting as administrative agent, issuing bank, joint bookrunner and joint lead arranger. The borrower under the Term Loan Facility is Vivint Solar Financing II, LLC, our wholly owned indirect subsidiary. Upon closing, our subsidiary incurred $300.0 million aggregate principal amount of term borrowings and may draw up to $13.0 million of letters of credit. Proceeds of the Term Loan Facility will be used to (1) repay existing indebtedness under the Aggregation Facility (as defined in the section captioned "Aggregation Credit Facility") with respect to the portfolio of projects being used as collateral for the Term Loan Facility, or the Portfolio, (2) fund the debt service reserve account if not funded through the letter of credit facility and other agreed reserves, (3) pay transaction costs and fees in connection with the Term Loan Facility and (4) distribute to us as reimbursement for capital costs associated with deployment of the Portfolio. An escrow account will be established with respect to a portion of the term borrowings with respect to those systems in the Portfolio that have not been placed in service as of the closing date, with a single disbursement of such remaining amounts to occur once such systems have been placed in service, subject to compliance with the Portfolio concentration restrictions and limitations related to the Portfolio.

For the initial four years of the term of the Term Loan Facility, interest on borrowings accrue at an annual rate equal to LIBOR plus 3.00%. Thereafter interest accrues at an annual rate equal to LIBOR plus 3.25%. In addition, we are required to enter into interest rate hedging arrangements with the joint lead arrangers or their affiliates such that at least 75% of the aggregate principal amount of the outstanding term loans are subject to a fixed interest rate or other interest rate protection by no later than 30 business days following the closing date of the Term Loan Facility. Certain principal payments are due on a quarterly basis, at the end of January, April, July and October of each year, subject to the occurrence of certain events, including failure to meet certain distribution conditions, proceeds received by the borrower or subsidiary guarantors in respect of casualties, and proceeds received for purchased systems. Principal and interest payable under the Term Loan Facility mature in five years and optional prepayments, in whole or in part, are permitted under the Term Loan Facility, without premium or penalty apart from any customary LIBOR breakage provisions.

The 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 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 shall be funded at closing in an amount at least equal to the next six months of scheduled principal and interest associated with the term borrowings, and the borrower is required to maintain an average debt service coverage ratio of 1.55 to 1.

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, we shall guarantee certain obligations of the borrower under the Term Loan Facility.

Subordinated HoldCo Facility . In March 2016, we entered into a credit agreement, or the Subordinated HoldCo Facility , formerly known as the Term Loan Facility , pursuant to which we may borrow up to an aggregate principal amount of $200.0 million of term loan borrowings from investment funds and accounts advised by Highbridge Principal Strategies, LLC. The initial $75.0 million in borrowing s are referred to as "Tranche A" borrowings. As of June 30 , 2016, we had incurred an aggregate of $ 75.0 million of the Tranche A borrowings. The remaining $125.0 million aggregate principal amount in borrowings may be incurred in three installments of at l east $25.0 million aggregate principal amount prior to March 2017 . Such subsequent borrowings, if any, are referred to as "Tranche B" borrowings. If any Tranche B borrowings are incurred, the maturity date for all borrowings is March 2020 . If any Tranche B borrowings are incurred, we may not prepay any borrowings until March 2018 and any subsequent prepayments of principal are subject to a fee equal to 3.0%. In July 2016, we incurred $25.0 million in Tranche B borrowings. Borrowings under the Subordinated H oldCo F acility will be used for the construction and acquisition of solar energy systems. The remaining borrowing capacity was $ 125.0 million as of June 30 , 2016 and $100.0 million as of July 31, 2016 following the Tranche B borrowings .

Interest on the Tranche A borrowings accrued at a floating rate of LIBOR plus 5.5%. When any Tranche B borrowings are incurred, the interest rate increases to a floating rate of LIBOR plus 8.0% for the entire principal amount outstanding. As of June 30, 2016, the borrowings under the Subordinated HoldCo Facility accrued interest at 6.1%.

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 our 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. 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. As of June 30, 2016, we were in compliance with such covenants.

Aggregation Credit Facility. In September 2014, we entered into a credit agreement, or the Aggregation Facility, which was subsequently amended in February 2015 and November 2015, pursuant to which we may borrow up to an aggregate principal amount of $375.0 million and, for which Bank of America, N.A. is acting as administrative agent. Upon the satisfaction of certain conditions and the approval of the lenders, we may increase the aggregate amount of principal borrowings to $550.0 million. As of June 30, 2016, we had incurred an aggregate of $338.5 million in term loan borrowings under this agreement and we had a remaining borrowing capacity of $36.5 million under this facility.

Prepayments are permitted under the Aggregation Facility and the principal and accrued interest on any outstanding loans mature in March 2018. Under the Aggregation Facility , interest on borrowings accrues at a floating rate equal to (1) a margin that varies between 3.25% during the period during which we may incur borrowings and 3.50% after such period plus either of (2)(a) LIBOR, or (b) the greatest of (i) the Federal Funds Rate plus 0.5%, (ii) the administrative agent's prime rate and (iii) LIBOR plus 1%. As of June 30, 2016 , the borrowings under the Aggregation Facility accrued interest at 3.7%.

The Aggregation Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, the borrower's, and the guarantors' ability to incur indebtedness, incur liens, make investments, make fundamental changes to their business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Aggregation Facility provides that the borrower may not incur any indebtedness other than that related to the Aggregation Facility or in respect of permitted swap agreements, and that the guarantors may not incur any indebtedness other than that related to the Aggregation Facility or as permitted under existing investment fund transaction documents. These restrictions do not impact our ability to enter into investment funds, including those that are similar to those entered into previously. As of June 30, 2016, we were in compliance with such covenants. As of June 30, 2016, we had not entered into any interest rate hedges, which we are required to obtain by September 13, 2016.

Working Capital Credit Facility. In March 2015, we entered into a credit agreement, or the Working Capital Facility, pursuant to which we 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. Loans under the Working Capital Facility were used to pay for the costs incurred in connection with the design and construction of solar energy systems, and letters of credit were issued for working capital and general corporate purposes. The Working Capital Facility matures in March 2020. As of June 30, 2016, we had incurred $142.6 million in borrowings under this credit facility and up to $7.4 million in letters of credit related to insurance contracts. As such, there was no remaining borrowing capacity available as of June 30, 2016.

Prepayments are permitted under the Working Cap ital 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 pe riod divided by one minus the Eurodollar Reserve Percentage, plus a margin of 3.25%; or (2) the highest of (a) the Federal Funds Rate plus 0.50%, (b) the Citibank prime rate and (c) the one-month interest period Eurodollar rate plus 1.00%, plus a margin of 2.25%. Interest is payable dependent on the type of borrowing at the end of (1) the interest period that we elect as a term and not to exceed three months, (2) quarterly or (3) at maturity of the Working Capital Facility. As of June 30 , 2016 , the borrowin gs under the Working Capital Facility accrued interest at 3.7 %.

The Working Capital Facility includes customary covenants, including covenants that restrict, subject to certain exceptions, our ability to incur indebtedness, incur liens, make investments, make fundamental changes to our business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions. Among other restrictions, the Working Capital Facility provides that we may not incur any indebtedness other than that related to the Working Capital Facility or in respect of permitted swap agreements. These restrictions do not impact our ability to enter into investment funds, including those that are similar to those entered into previously. We are also required to maintain $25.0 million in cash and cash equivalents and certain investments as of the last day of each quarter. As of June 30, 2016, we were in compliance with such covenants.

Cash Inflows from Operations

In the three and six months ended June 30, 2016 , we generated $30.1 million and $46.6 million in revenue from operating leases and incentives, which approximates cash inflow. Cash related to our solar energy systems sales is generally received prior to revenue recognition. 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. Our operating expenses have increased from year to year due to the growth of our business. 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:

	Six Months Ended June 30,	
	2016	**2015**
Consolidated cash flow data:	**(In thousands)**	
Net cash used in operating activities	$ (108,722)	$ (123,589)
Net cash used in investing activities	(217,944)	(243,913)
Net cash provided by financing activities	304,067	258,077
Net decrease in cash and cash equivalents	$ (22,599)	$ (109,425)

Operating Activities

In the six months ended June 30, 2016, we had a net cash outflow from operations of $108.7 million. This outflow was primarily due to a $157.9 million net loss and an $87.0 million increase in prepaid tax assets. The outflow was partially offset by noncash adjustments of $83.8 million for deferred income taxes, $36.6 million for impairment of goodwill and $19.9 million for depreciation and amortization.

Investing Activities

In the six months ended June 30, 2016, we used $217.9 million in investing activities primarily due to $211.6 million in costs associated with the design, acquisition and installation of solar energy systems and $4.5 million to increase the balance in restricted cash and cash equivalents.

Financing Activities

In the six months ended June 30, 2016, we generated $304.1 million from financing activities, of which $183.3 million was received in proceeds from investments by non-controlling interests and redeemable non-controlling interests into our investment funds and $144.7 million was received in proceeds from long-term debt. These proceeds were partially offset by distributions to non-controlling interests and redeemable non-controlling interests of $11.8 million, payments for debt issuance costs and capital lease obligations of $9.3 million and repayments of long-term debt of $4.2 million.

Contractual Obligations

In addition to the contractual obligations disclosed in our annual report on Form 10-K for the year ended December 31, 2015, we incurred $140.6 million in borrowings under our debt facilities during the six months ended June 30, 2016. The principal and accrued interest on any outstanding loans under the Working Capital Facility mature in March 2020. The principal and accrued interest on any outstanding loans under the Aggregation Facility mature in March 2018. The principal and accrued interest on any outstanding loans under the Subordinated HoldCo Facility mature in March 2020. Prepayments are permitted under both the Working Capital Facility and Aggregation Facility. Prepayments under the Subordinated HoldCo Facility are not permitted until March 2018 and any subsequent prepayments of principal are subject to a fee equal to 3.0%. See Note 10—Debt Obligations.

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

In March 2016 through May 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or 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.* We are evaluating the impact that these updates will have on our condensed consolidated financial statements. Additionally, ASU 2015-14 defers the effective date of ASU 2014-09 for us to January 1, 2018, with early adoption available on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating which transition method to use and do not expect the update to have a significant impact on our condensed consolidated financial statements and related disclosures based on our current business model.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The objective of this update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture rates and classification on the statement of cash flows. This update is effective for annual periods beginning after December 15, 2016 for public business entities and early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. We expect to apply the update upon its effectiveness in the first quarter of 2017 and expect the update to have an impact to our equity balance in the condensed consolidated balance sheet and all expense line items on the condensed consolidated statement of operations in the first quarter of 2017.

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 should be applied using a modified retrospective approach. We have operating leases that will be affected by this update and are evaluating the impact on our condensed consolidated financial statements and disclosures. We expect to apply the update upon its effectiveness in the first quarter of 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Topic 825-10): Re cognition and Measurement of Financial Assets and Financial Liabilities* . The objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This update is effective in fiscal years beginning after December 15, 2017. The amendments should be applied by means of a cumulative -effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We do not expect the update to have a significant impact on our condensed consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* . This ASU changes the measurement principle for inventories valued under the first-in, first-out 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 by the FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU does not change the measurement principles for inventories valued under the last-in, first-out method. The update is effective in fiscal years beginning after December 15, 2016. Early adoption is permitted. This update is not expected to have a significant impact on our condensed consolidated financial statements.

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 June 30, 2016, we had cash and cash equivalents of $69.6 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 June 30, 2016, we had incurred an aggregate of $556.4 million in borrowings under our debt facilities, which accrued interest at a weighted-average rate of approximately 4.0%. If our debt facilities had been fully drawn at December 31, 2015 and remained outstanding for all of 2016, the effect of a hypothetical 10% change in our floating interest rate on these borrowings would increase or decrease interest expense by approximately $2.4 million.

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

Item 4. Controls and Procedures

Internal Control Over Financial Reporting

(a) 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 June 30, 2016 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.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined by Rule 13a-15(f) under the Exchange Act). In assessing the effectiveness of our internal control over financial reporting as of June 30 , 2016, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on the evaluation of our disclosure controls and procedures as of June 30, 2016, our chief executive officer and chief financial officer concluded that, as a result of material weaknesses in our internal control over financial reporting as disclosed in our annual report on Form 10-K for the year ended December 31, 2015, our disclosure controls and procedures were not effective as of June 30, 2016.

Material Weakness

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

We previously reported a material weakness in internal control over financial reporting for the year ended December 31, 2014. This previously reported material weakness had not been fully remediated for the year ended December 31, 2015 or for the six months ended June 30, 2016, and as a result, we continued to have deficiencies in our internal controls including those associated with the HLBV method of attributing net income or loss to non-controlling interests and redeemable non-controlling interests and with our financial statement close process.

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

We have taken steps to remediate the underlying causes of the material weakness that was reported for the year ended December 31, 2014. We have hired a number of additional financial, accounting and tax personnel in addition to a director of internal audit to assist us in implementing and improving our existing internal controls and a chief information officer to assist us in improving our underlying information technology systems and to decrease our reliance on manual processes. We engaged third-party consultants to provide support over our accounting and tax processes to assist us with our evaluation of complex technical accounting matters. We engaged consultants to advise us on making further improvements to our internal controls over financial reporting. We believe that these additional resources will enable us to broaden the scope and quality of our controls relating to the oversight and review of financial statements and our application of relevant accounting policies. Furthermore, we continue to implement and improve systems to automate certain financial reporting processes and to improve information accuracy. These remediation efforts are still in process and have not yet been completed. Because of this material weakness, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

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

We will be required to engage an independent registered public accounting firm to opine on the effectiveness of our internal control over fina ncial reporting beginning at the date we are no longer an "emerging growth company" as defined in the JOBS Act. At such time, our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may issue a report that is adverse if such firm is not satisfied with the level at which our controls are documented, designed, ope rated or reviewed. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weak ness in the future. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the six months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than those described above.

Inherent Limitation on the Effectiveness of Internal Control

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In September 2014, two of our former installation technicians, on behalf of themselves and a purported class, filed a complaint for damages, injunctive relief and restitution in the Superior Court of the State of California in and for the County of San Diego against us and unnamed John Doe defendants. The complaint alleges certain violations of the California Labor Code and the California Business and Professions Code based on, among other things, alleged improper classification of installer technicians, installer helpers, electrician technicians and electrician helpers, failure to pay minimum and overtime wages, failure to provide accurate itemized wage statements, and failure to provide wages on termination. In December 2014, the original plaintiffs and three additional plaintiffs filed an amended complaint with essentially the same allegations. On November 5, 2015, the parties agreed to preliminary terms of a settlement of all claims related to allegations in the complaint in return for our payment of $1.7 million to be paid out to the purported class members. The settlement agreement has received preliminary approval from the Court, with final approval hearing set for September 30, 2016. A $1.7 million reserve was recorded related to this proceeding in our condensed consolidated financial statements.

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

On July 31, 2015, a putative class action lawsuit was filed in the Court of Chancery State of Delaware against our directors, SunEdison Inc., or SunEdison, and TerraForm Power, or TerraForm, alleging that the proposed acquisition by SunEdison is unfair to our stockholders. On August 7, 2015, a second putative class action lawsuit was filed in the same court alleging similar claims, and including 313, Acquisition, LLC as a named defendant. Both complaints seek injunctive relief and unspecified damages. On or about September 10, 2015, two purported class action lawsuits were also filed in Utah's Fourth District State Court, or the Utah Actions, alleging similar claims to the complaints previously filed in the Delaware Chancery Court. On September 22, 2015, we, through counsel notified plaintiff's counsel in the Utah Actions that pursuant to our Articles of Incorporation, any such derivative action was subject to exclusive jurisdiction in the Delaware Chancery Court, and accordingly, the Utah Actions should be dismissed. After a December 2015 amendment to the proposed acquisition, a new complaint was filed in the Delaware Chancery Court on January 11, 2016. As a result of the termination of the SunEdison acquisition, plaintiffs filed a motion for voluntary dismissal of the complaint in this action. On April 20, 2016 the Delaware court entered the dismissal of this case.

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

On March 8, 2016, we filed suit in the Court of Chancery State of Delaware against SunEdison and SEV Merger Sub Inc. alleging that SunEdison willfully breached its obligations under the Merger Agreement pursuant to which we were to be acquired and breached its implied covenant of good faith and fair dealing. We are seeking declaratory judgment, award damages, costs and reasonable attorney's fees and such further relief that the court finds equitable, appropriate and just. On April 21, 2016, SunEdison filed for Chapter 11 bankruptcy, thereby creating a temporary stay on the prosecution of our litigation in the Delaware court. We are participating in the bankruptcy case so as to maximize the recovery from the claims against SunEdison. On July 7, 2016, we filed a motion with the bankruptcy court seeking to lift the stay and allow us to litigate our claim against SunEdison.

In March 2016, a civil complaint was filed against us alleging negligence and related claims arising from damage to a customer's residence. In June 2016, we reached agreement between us, the plaintiffs and our liabili ty insurance provider to participate in an arbitration proceeding that will determine the extent of damages - with a minimum amount set at $1 .0 million and a maximum amount set at $3 .0 million. Based on the above agreement, a $1 .0 million reserve was recor ded related to this matter in our condensed consolidated financial statements. We anticipate that the entiret y of any damage award will be satisfied by our liability insurance p rovider and a related $1.0 million receivable was recorded in our condensed con solidated financial statements.

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 Proposed Acquisition by SunEdison

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

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

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

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

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

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

- we will not realize any or all of the potential benefits of the acquisition, including any synergies that could result from combining the resources of us and SunEdison, which could have a negative effect on our stock price;
- we will remain liable for significant transaction costs, including legal, accounting, financial advisory and other costs relating to the transaction;
- the attention of our management and employees has been diverted, and may continue to be diverted, from day-to-day operations as we pursue our remedies under the Merger Agreement;
- our business has been disrupted by customer uncertainty over when or if the acquisition will be completed or customers' and investors' perception of us as a standalone company and our business may continue to be affected by the residual impact of these or similar factors;
- under the Merger Agreement, we were subject to certain restrictions on the conduct of our business prior to completing the acquisition, which restrictions have adversely affected our ability to conduct business as we otherwise would have done if we were not subject to these restrictions and our business may continue to be affected by the residual impact of these or similar factors;
- due to investor uncertainty regarding the acquisition, our ability to raise additional financing was limited, which may adversely affect our ability to raise additional financing in a timely manner or on favorable terms; and
- our ability to retain current key employees or attract new employees may be harmed by uncertainties associated with our future as a standalone company.

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

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

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

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

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

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

Risks Related to our Business

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

Our future success depends on our ability to raise capital from third-party investors on competitive terms to help finance the deployment of our solar energy systems. We seek to minimize our cost of capital in order to maintain the price competitiveness of the electricity produced by, or the lease payments for, our solar energy systems. If we are unable to establish new investment funds when needed, or upon desirable terms, to enable our customers' access to our solar energy systems with little to no upfront cost to them, we may be unable to finance installation of our customers' systems or our cost of capital could increase, either of which would have a material adverse effect on our business, financial condition, results of operations and prospects. As of July 31, 2016, we had raised 17 residential investment funds to which investors such as banks and other large financial investors have committed to invest approximately $1.1 billion which will enable us to install solar energy systems of total fair market value approximating $2.8 billion. As of July 31, 2016, we had remaining residential tax equity commitments to fund approximately 24 megawatts of future deployments, which we estimate to be sufficient to fund solar energy systems with a total fair market value of approximately $98 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 existing commitments, our inability to draw on such commitments could have a material adverse effect on our business, liquidity, financial condition and prospects. In addition to our inability to draw on the investors' commitments, we may incur financial penalties for non-performance, including delays in the installation process and interconnection to the power grid of solar energy systems and other factors. Based on the terms of the investment fund agreements, we will either reimburse a portion of the fund investor's capital or pay the fund investor a non-performance fee. In connection with the end of our C&I investment fund in second quarter of 2016, we paid a termination fee of $1.0 million.

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

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

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

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

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

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

A reduction in utility electricity costs would make the purchase of electricity under our power purchase agreements or the lease of our solar energy systems less economically attractive. If the cost of energy available from traditional utilities were to decrease due to any of these reasons, or other reasons, we would be at a competitive disadvantage, we may be unable to attract new customers and our growth would be limited. In addition, in the third quarter of 2016, we increased 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. To the extent that such views are reflected in government policy, the changes in such policies and regulations could adversely affect our results of operations, cost of capital and growth prospects.

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

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our offerings or increase our costs or the prices we charge our customers. Certain jurisdictions have proposed allowing traditional utilities to assess fees on customers purchasing energy from solar energy systems or have imposed or proposed new charges or rate structures that would disproportionat ely impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. For example, the California Public Utilities Commission issued a d ecision in July 2015 that allowed utilities to impose a minimum $10 monthly bill for residential customers, approved the concept of fixed charges and will permit the utilities to propose such fixed charges again in 2018. A decision issued in January 2016 w ill allow new interconnection fees and additional non - by - passable charges to be assessed on customers taking service on California's net metering successor tariff. This will result in monthly charges being imposed on our customers in California. Additional ly, certain utilities in Arizona have approved increased rates and charges for net metering customers, and others have proposed doing away with the state's renewable electricity standard carve-outs for distributed generation as well as the state's net mete ring program. These policy changes may negatively impact our customers and affect demand for our solar energy systems, 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 of our solar energy systems in California, any such changes in this market would be particularly harmful to our reputation, customer relations, b usiness, results of operations and future growth in these areas. We may be similarly adversely affected if our business becomes concentrated in other jurisdictions.

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

Federal, state and local government and regulatory bodies provide for tariff structures and incentives to various parties including owners, end users, distributors, system integrators and manufacturers of solar energy systems to promote solar energy in various forms, including rebates, tax credits and other financial incentives such as system performance payments, renewable energy credits associated with renewable energy generation, exclusion of solar energy systems from property tax assessments and net metering. We rely on these governmental and regulatory programs to finance solar energy system installations, which enables us to lower the price we charge customers for energy from, and to lease or purchase, our solar energy systems, helping to catalyze customer acceptance of solar energy with those customers as an alternative to utility-provided power. However, these programs may expire on a particular date, end when the allocated funding 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 attempted to assess and collect property taxes in the past on rooftop solar energy systems such as ours and counties in Arizona 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.

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

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

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

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

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

In recent years, net metering programs have been subject to regulatory scrutiny and legislative proposals in some states, such as Arizona, California, Colorado, Hawaii, Nevada and Utah. In California, for example, after the earlier of July 1, 2017 or the date the applicable investor owned utility re aches its statutory net metering cap, customers will take service on a new net metering successor tariff. The net metering cap is measured based on the nameplate capacity of net metered systems within the applicable utility's service territory. Currently, the net metering caps for the three large investor-owned utilities are: 617 megawatts for San Diego Gas and Electric Company, or SDG&E; 2,240 megawatts for Southern California Edison Company; and 2,409 megawatts for Pacific Gas and Electric Company. As reflected in their June 30, 2016 reports required by statute, these investor-owned utilities have approximately 0%, 34% and 12%, respectively, of capacity remaining under their respective net metering caps. The statute providing the current caps also provides that, once the new net metering rules are effective, there will be no net metering caps applied to these utilities. During the six months ended June 30, 2016, the net metering cap for SDG&E became fully subscribed. SDG&E is currently allowing net metering systems to interconnect until the California Public Utilities Commission approves the NEM successor tariff. For the NEM successor tariff, the Commission largely upheld net metering in its current form with full retail compensation for exports and rejected utility requests to impose extremely high fixed and capacity charges. The Commission did allow the utilities to impose reasonable interconnection fees and some additional charges on customers, and will require such customers to take service on time-of-use rates. 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 such, 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. Solar advocates have filed suit challenging this order and seeking to enjoin its effecti veness.

In late 2015, the Nevada Public Utilities Commission voted in favor of a plan which limits export compensation to net metering customers and imposes high monthly fees on such customers. This order greatly reduced the economic benefit to Nevada customers of residential solar. Solar advocates have filed suit challenging this order and a ballot initiative intended to restore net metering is underway . 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 and could adversely impact our business, results of operations and future growth. For example, shortly after expanding our operations into Nevada, the state's primary electric utility reached its net metering cap . As a result of the net metering cap being reached, we suspended operations in Nevada pending revisions to the net metering available in the state.

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

Technical and regulatory limits may curb our growth in certain key markets, which may also reduce our ability to retain employees in those markets. For example, the Federal Energy Regulatory Commission, in promulgating the first form small generator interconnection procedures, recommended limiting customer-sited intermittent generation resources, such as our solar energy systems, to a certain percentage of peak load on a given electrical feeder circuit. Similar limits have been adopted by many states as a de facto standard and could constrain our ability to market to customers in certain geographic areas where the concentration of solar installations exceeds this limit. For example, Hawaiian electric utilities have adopted certain policies that limit distributed electricity generation in parts of their service territories. In the first half of 2014, Hawaii was the second largest market in which we operated as measured by total installations. However, despite legislative and regulatory actions to allow further distributed electricity penetration, these limitations constrained growth of distributed residential solar energy in Hawaii in the second half of 2014 and beyond, and Hawaii has become a less important market to us as a result; which in turn resulted in the loss of employees located in that market who were not willing to relocate. While a recent Hawaii Public Utilities Commission order seeks to streamline the interconnection process, and while our growth in other markets has more than offset the impact of these limitations in Hawaii, if we experienced similar or other limitations on the deployment of solar energy systems, our business, operating results and growth prospects could be materially adversely affected. Furthermore, in certain areas, we benefit from policies that allow for expedited or simplified procedures related to connecting solar energy systems to the power grid. If such procedures are changed or cease to be available, our ability to sell the electricity generated by solar energy systems we install may be adversely impacted. As adoption of solar distributed generation rises along with the commercial operation of utility scale solar generation in key markets such as California, the amount of solar energy being fed into the power grid will surpass the amount planned for relative to the amount of aggregate demand. Some traditional utilities claim that in less than five years, solar generation resources may reach a level capable of producing an over-generation situation, which may require some solar generation resources to be curtailed to maintain operation of the 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 future.

We have incurred operating losses since our inception. We incurred net losses of $253.3 million and $157.9 million for the year ended December 31, 2015 and the six months ended June 30, 2016. We expect to continue to incur net losses from operations as we finance our operations, expand our installation, engineering, administrative, sales and marketing staffs, and implement internal systems and infrastruct ure to support our growth. Failure to grow at a sufficient rate to support these investments in personnel, systems and infrastructure, have adversely impacted and in the future could adversely impact our business and results of operations. Our ability to a chieve profitability depends on a number of factors, including:

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

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

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

Historically, our primary sales channel has been a direct sales model. We also sell to customers through our inside sales team but continue to find greatest success using our direct sales channel. We compete against companies with experience selling solar energy systems to customers through a number of distribution channels, including homebuilders, home improvement stores, large construction, electrical and roofing companies and other third parties and companies that access customers through relationships with third parties in addition to other direct-selling companies. Competitor sales volume through other channels is unknown. Our less diversified distribution channels may place us at a disadvantage with consumers who prefer to purchase products through these other distribution channels. We are also vulnerable to changes in laws related to direct marketing that could impose additional limitations on unsolicited residential sales calls and may impose additional restrictions. If additional laws affecting direct marketing are passed in the markets in which we operate, it would take time to train our sales force to comply with such laws, and we may be exposed to fines or other penalties for violations of such laws. If we fail to compete effectively through our direct-selling efforts or are not success ful in developing other sales channels, our financial condition, results of operations and growth 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. Historically, we have recruited a large portion of our sales personnel from our sister company, Vivint, particularly in California, where a significant portion of our business is concentrated. Pursuant to a non-competition agreement, we and Vivint have agreed not to solicit for employment any of the other's employees who primarily manage sales, installation or servicing of the other's products and services. The commitment not to solicit those employees lasts for 180 days after the employee finishes employment with us or Vivint. As a result, we have recruited greater numbers of our sales personnel from other sources. These sales personnel recruited from other sources generally have less direct-to-home selling experience, which has slowed our growth in solar energy sales. Sales personnel are attracted to direct-selling by competitive earnings opportunities and so direct-sellers typically compete for sales personnel by providing a more competitive earnings opportunity than that offered by the competition. Competitors devote substantial effort to determining the effectiveness of such incentives so that they can invest in incentives that are the most cost effective or produce the best return on incentive. For example, we have historically compensated our sales personnel on a commission basis, based on the size of the solar energy systems they sell. Some sales personnel may prefer a compensation s tructure that also includes a salary and equity incentive component. We may need to adjust our compensation model to include such components, and these adjustments could adversely impact our operating results and financial performance.

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

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

We are subject to significant competition for the recruitment of sales personnel from other direct-selling companies and from other companies that sell solar energy systems in particular. During the pendency of the SunEdison acquisition , our current employ ees experienced uncertainty about their future with SunEdison, us or the combined company. These uncertainties have impaired, and may continue to impair the ability of us to retain, recruit or motivate key personnel, and may have negatively impacted the productivity of current employees. Furthermore, the regional and district managers of our sales personnel are instrumental in recruiting, retaining and motivating our sales personnel. When managers have elected to leave us and join other companies, the sales personnel they supervise have often left with them. We may experience increased attrition in our sales personnel in the future which may impact o ur results of operations and growth. The impact of such attrition could be particularly acute in those jurisdictions, such as California, where contractual non-competition agreements for service providers are not enforceable or subject to significant limit ations.

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

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

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

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

Retail sales of electricity by non-utilities such as us face regulatory hurdles in some states and jurisdictions, including states and jurisdictions that we intend to enter where the laws and regulatory policies have not historically embraced competition to the service provided by the incumbent, vertically integrated electric utility. Some of the principal challenges pertain to whether non-customer owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives and whether third-party owned systems are eligible for net metering and the associated significant cost savings. Furthermore, in some states and utility territories third parties are limited in the way that they may deliver solar to their customers. In jurisdictions such as Arizona, South Carolina and Utah and in Los Angeles, California, laws have been interpreted to either prohibit the sale of electricity pursuant to our standard power purchase agreement 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, reductions in, eliminations of or additional application requirements for, these benefits could reduce demand for our systems, adversely impact our acces s 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 and we and our fund investors claim the ITC based on the fair market value of our solar energy systems. While we are not aware of any audits or results of audits related to our appraisals or fair market value determinations of any of our investment funds by the Internal Revenue Service, or IRS, scrutiny with respect to fair market value determinations has increased industry-wide in recent years. If as part of an examination the IRS were to review the fair market value that we used to establish our basis for claiming ITCs and determine that the ITCs previously claimed should be reduced, we would owe certain of our investment funds or our fund investors an amount equal to 30% of the investor's share of the difference between the fair market value used to establish our basis for claiming ITCs and the adjusted fair market value determined by the IRS, plus any costs and expenses associated with a challenge to that fair market value, plus a gross up to pay for additional taxes. We could also be subject to tax liabilities, including interest and penalties based on our share of claimed ITCs. To date, we have not been required to make such payments under any of our investment funds.

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

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

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

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

Rising interest rates could adversely impact our business.

Rising interest rates could have an adverse impact on our business by increasing our cost of capital. The majority of our cash flows to date have been from customer contracts that have been partially monetized under various investment fund structures. One of the components of this monetization is the present value of the payment streams from the customers who enter into these contracts. If the rate of return required by the fund investor rises as a result of a rise in interest rates, the present value of the customer payment stream and the total value that we are able to derive from monetizing the payment stream will each be reduced. Interest rates are at historically low levels. It is likely that interest rates will rise in 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, so that such distributions owed to us, or additional capital contributions made by us, can be redirected to the fund investor such that it achieves the targeted return. For example, in 2015, we paid a contractually agreed upon $5.0 million capital distribution to reimburse a fund investor a portion of its capital contribution in order to true-up the investor's expected rate of return primarily due to a delay in solar energy systems being interconnected to the power grid and other factors.

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

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

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

In September 2014, we entered into an aggregation credit facility, which was subsequently amended in February 2015 and November 2015, pursuant to which we may borrow up to an aggregate of $375.0 million and, upon the satisfaction of certain conditions and the approval of the lenders, up to an aggregate of $175.0 million in additional borrowings. In March 2015, we entered into a revolving credit facility pursuant to which we may borrow up to an aggregate of $150.0 million. In March 2016 we entered into a term loan facility pursuant to which we may borrow up to an aggregate principal amount of $200.0 million. In August 2016, we entered into a term loan facility pursuant to which we may borrow up to an aggregate principal amount of $313.0 million. These credit facilities and term loan facilities restrict our ability to dispose of assets, incur indebtedness, incur liens, pay dividends or make other distributions to holders of our capital stock, repurchase our capital stock, make specified investments or engage in transactions with our affiliates. In addition, we do not have full access to the cash and cash equivalents held in our investments funds until distributed per the terms of the arrangements. We and our subsidiaries may incur substantial additional debt in the future and any debt instrument we enter into in the future may contain similar, or more onerous, restrictions. These restrictions could inhibit our ability to pursue our business strategies. Furthermore, if we default on one of our debt instruments, and such event of default is not cured or waived, the lenders could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross acceleration under other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default.

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

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

As of June 30, 2016, approximately 40% of our cumulative installations and 31% of our total offices were located in California. In addition, we expect future growth to occur in California, which could further concentrate our customer base and operational infrastructure. Accordingly, our business and results of operations are particularly susceptible to adverse economic, regulatory, political, weather and other conditions in California and in other markets that may become similarly concentrated.

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

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

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

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

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

We previously reported a material weakness in internal control over financial reporting for the year ended December 31, 2014. This previously reported material weakness has not been fully remediated for the year ended December 31, 2015 or for the six months ended June 30, 2016, and as a result, we continued to have deficiencies in our internal controls including those associated with the HLBV method of attributing net income or loss to non-controlling interests and redeemable non-controlling interests and with our financial statement close process.

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

We have taken steps to remediate the underlying causes of the material weakness that was reported for the year ended December 31, 2014. We have hired a number of additional financial, accounting and tax personnel in addition to a director of internal audit to assist us in implementing and improving our existing internal controls and a chief information officer to assist us in improving our underlying information technology systems and to decrease our reliance on manual processes. We engaged third-party consultants to provide support over our accounting and tax processes to assist us with our evaluation of complex technical accounting matters. We engaged consultants to advise us on making further improvements to our internal controls over financial reporting. We believe that these additional resources will enable us to broaden the scope and quality of our controls relating to the oversight and review of financial statements and our application of relevant accounting policies. Furthermore, we continue to implement and improve systems to automate certain financial reporting processes and to improve information accuracy. These remediation efforts are still in process and have not yet been completed. Because of this material weakness, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

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

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

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

Expansion into new markets could be costly and time-consuming. Historically, we have only provided our offerings to residential customers, which could p ut 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 face competition from traditional regulated electric utilities, from less-regulated third party energy service providers and from new renewable energy companies.

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

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

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

As the solar i ndustry 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, if deemed necessary, may decide to revise those plans and policies. Our installers and electricians may not react well to an y 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 which would adversely impact the geographic mix of new solar energy system installations.

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

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

We depend on a limited number of suppliers of solar energy system components and technologies to adequately meet anticipated demand for our solar energy systems. Due to the limited number of suppliers in our industry, the acquisition of any of these suppli ers 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 in the six months ended June 30, 2016, Trina Solar Limited, Yingli Green Energy Americas, Inc. and JinkoSolar Holding Co., Ltd. accounted for substantially all of our solar photovoltaic module purchases and Enphase Energy, Inc. and SolarEdge Technologies Inc. accounted for substantially all of our inverter purchases. If we fail to develop, maintain and expand our relationships with these or other suppliers, our ability to adequately meet anticipated demand for our solar energy systems may be adversely affected, or we may only be able to offer our systems at higher costs or after delays. If one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, is unable to increase production as industry demand increases or is otherwise unable to allocate sufficient production to us, it may be difficult to quickly identify alternative suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. There are a limited number of suppliers of solar energy system components and technologies. While we believe there are other sources of supply for these products available, transitioning to a new supplier may result in additional costs and delays in acquiring our solar products and deploying our systems. These issues could harm our business or financial performance.

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

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

Historically, we purchased the components for our solar energy systems on an as-needed basis and did not operate under long-term supply agreements. Recently, we have entered into multi-year agreements with certain of our major suppliers. These agreements are denominated in U.S. dollars. Since our revenue is also generated in U.S. dollars we are mostly insulated from currency fluctuations. However, since our suppliers often incur a significant amount of their costs by purchasing raw materials and generating operating expenses in foreign currencies, if the value of the U.S. dollar depreciates significantly or for a prolonged period of time against these other currencies this may cause our suppliers to raise the prices they charge us, which could harm our financial results. Since we purchase almost all of the solar photovoltaic modules we use from China, we are particularly exposed to exchange rate risk from increases in the value of the Chinese Renminbi. In addition, the U.S. government has imposed tariffs on solar cells produced and assembled in China and Taiwan. These tariffs, and any tariffs or duties, or shortages, delays, price changes or other limitation in our ability to obtain components or technologies we use could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand.

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

Our quarterly and annual operating results are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our 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 power purchase agreements is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather, 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.

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.

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 continue to decline, it is possible they will not decline at the same rate as they have over the past several years. 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 virtually all of the solar panels used in our solar energy systems from manufacturers based in China which have benefited from favorable governmental policies by the Chinese government. If this governmental support were to decrease or be eliminated, our ability to purchase these products on competitive terms or to access specialized technologies from China could be restricted.

Even if this support were to continue, the U.S. government could impose additi onal tariffs on solar cells manufactured in China. In 2014, the U.S. government broadened its investigation of Chinese pricing practices in this area to include solar panels and modules produced in China containing solar cells manufactured in other countri es. 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. Coun tervailing 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 T rade Commission that material harm to the U.S. solar industry had occurred. These combined tariffs would make such solar cells less competitively priced in the United States, and the Chinese and Taiwanese manufacturers may choose to limit the amount of sol ar equipment they sell into the United States. As a result, it may be easier for solar cell manufacturers located outside of China or Taiwan to increase the prices of the solar cells they sell into the United States. If we are required to pay higher prices , accept less favorable terms or purchase solar panels or other system components from alternative, higher-priced sources, our financial results will be adversely affected.

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

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

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

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

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

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

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems and at potentially high temperatures. The evaluation and modification of buildings as part of the installation process requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead, mold or other materials known or believed to be hazardous to human health. We also maintain a fleet of nearly 850 trucks and other vehicles to support our installers and operations. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, the U.S. Department of Transportation, or DOT, and equivalent state laws. Changes to OSHA, DOT or state requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures or suspend or limit operations. While we have not experienced a high level of injuries to date, we could be exposed to increased liability in the future. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

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

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

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

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

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

We typically provide a workmanship warranty for periods of five to 20 years to our investment funds for every system we sell to them. We are also generally contractually obligated to cover the cost of maintenance, repair and billing on any solar energy systems that we sell or lease to our investment funds. We are subject to a maintenance services agreement under which we are required to operate and maintain the system, and perform customer billing services for a fixed fee that is calculated to cover our future expected maintenance and servicing costs of the solar energy systems in each investment fund over the term of the lease or power purchase agreement with the covered customers. If our solar energy systems require an above-average amount of repairs or if the cost of repairing systems were higher than our estimate, we would need to perform such repairs without additional compensation. If our solar energy systems, a majority of which are located in California, are damaged in the event of a natural disaster beyond our control, such as an earthquake, tsunami or hurricane, losses could be outside the scope of insurance policies or exceed insurance policy limits, and we could incur unforeseen costs that could harm our business and financial condition. We may also incur significant costs for taking other actions in preparation for, or in reaction to, such events. When required to do so under the terms of a particular investment fund, we purchase property and business interruption insurance with industry standard coverage and limits approved by the investor’s third-party insurance advisors to hedge against such risk, but such coverage may not cover our losses, and we have not acquired such coverage for all of our funds.

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

If one of our solar energy systems injured someone, we could be exposed to product liability claims. In addition, it is possible that our products could injure our customer or third parties, or that our products could cause property damage as a result of product malfunctions, defects, improper installation, fire or other causes. We rely on our general liability insurance to cover product liability claims. Any product liability claim we face could be expensive to defend and divert management’s attention. The successful assertion of product liability claims against us could result in potentially significant monetary damages, penalties or fines, 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 that for Yelp and the Better Business Bureau. If we cannot manage our hiring and training processes to avoid or minimize to the extent possible, these issues, our reputation may be harmed and our ability to attract new customers would suffer.

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

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

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

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

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

We have experienced significant growth in recent periods with the cumulative capacity of our solar energy systems growing from 458.9 megawatts as of December 31, 2015 to 575.2 megawatts as of June 30, 2016, and we intend to continue to expand our business significantly within existing markets and in a number of new locations in the future. This growth has placed, and any future growth may place, a significant strain on our management, operational and financial infrastructure. In particular, we will be required to expand, train and manage our growing employee base and scale and otherwise improve our IT infrastructure in tandem with that headcount growth. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third parties and attract new customers, 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 growth, we may be unable to meet our or industry analysts' expectations regarding growth, opportunity and financial targets, take advantage of market opportunities, execute our business strategies or respond to competitive pressures. This could also result in declines in quality or customer satisfaction, increased costs, difficulties in introducing new offerings or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

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

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

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;

- inability to retain key customers, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential failure of the due diligence processes to identify significant issues with product quality, intellectual property infringement and other legal and financial liabilities, among other things;
- potential inability to assert that internal controls over financial reporting are effective; and
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

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

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

We 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. On May 2, 2016, our board of directors accepted the resignation of Greg Butterfield as our chief executive officer and president and appointed David Bywater as interim chief executive officer. As a result of this change and the subsequent departures of additional senior management, we may experience disruption in our business. No assurances can be made about the impact that this management change will have on our company nor our ability to successfully identify and recruit a permanent chief executive officer.

We also depend on our ability to retain and motivate key employees and attract qualified new employees. No assurances can be made about the effect our recent management change will have on employee morale, or our ability to retain key employees. None of our key executives are bound by employment agreements for any specific term and we do not maintain key person life insurance policies on any of our executive officers. In the year ended December 31, 2015, one-third of the outstanding options to purchase shares of our common stock granted to our key executives and other employees under our 2013 Omnibus Incentive Plan vested. In addition, one-third of the options remained outstanding and will vest annually over three years, or immediately if 313 Acquisition LLC receives a return on its invested capital at a pre-established threshold. As a result, the retention incentives associated with these options could lapse for all employees holding these options under our 2013 Omnibus Incentive Plan at the same time. This decrease in retention incentive could cause significant turnover after these options vest. We may be unable to replace key members of our management team and key employees if we lose their services. Integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to attract and retain sufficient managerial personnel who have critical industry experience and relationships could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the New York Stock Exchange, or NYSE, and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight 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 subj ect to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

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

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

We currently use in our solutions, and expect to continue to use in the future, software that is licensed under so-called "open source," "free" or other similar licenses. Open source software is made available to the general public on an "as-is" basis under the terms of a non-negotiable license. We currently combine our proprietary software with open source software but not in a manner that we believe requires the release of the source code of our proprietary software to the public. We do not plan to integrate our proprietary software with open source software in ways that would require the release of the source code of our proprietary software to the public, however, our use and distribution of open source software may entail greater risks than use of third-party commercial software. Open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, if we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release or remove the source code of our proprietary software to the public. 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 power purchase agreements is dependent in part on the amount of energy generated by solar energy systems under such contracts. As a result, operating leases and incentives revenue is impacted by seasonally shorter daylight hours in winter months. In addition, our ability to install solar energy systems is impacted by weather. For example, we have limited ability to install solar energy systems during the winter months in the Northeastern United States. Such delays can impact the timing of when we can install and begin to generate revenue from solar energy systems. However, given that we are in a rapidly growing industry, the true extent of these fluctuations may have been masked by our 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 our revenues and increase our expenses.

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

We are exposed to the credit risk of our customers.

Our solar energy customers primarily purchase energy or lease solar energy systems from us pursuant to one of two types of long-term contracts: a power purchase agreement or a lease. The power purchase agreement and lease terms are typically for 20 years, and require the customer to make monthly payments to us. Accordingly, we are subject to the credit risk of our customers. As of June 30, 2016, 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 $1.2 million as of June 30, 2016, and our future exposure may exceed the amount of such reserves.

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

Our business substantially focuses on contracts and transactions with residential customers. We must comply with numerous federal, state and local laws and regulations that govern matters relating to our interactions with residential consumers, including those pertaining to privacy and data security, consumer financial and credit transactions, home improvement contracts, warranties, door-to-door solicitation as well as specific regulations pertaining to solar installations. These laws and regulations are dynamic and subject to potentially differing interpretations, and various federal, state and local legislative and regulatory bodies may initiate investigations, expand current laws or regulations, or enact new laws and regulations, regarding these matters. Changes in these laws or regulations or their interpretation could dramatically affect how we do business, acquire customers, and manage and use information we collect from and about current and prospective customers and the costs associated therewith.

For example, Arizona recently enacted statutes that require in creased disclosures and acknowledgements in any agreement governing the financing, sale or lease of distributed energy systems, such as our solar energy systems. S.B. 1465 , which took effect on December 31, 2015, required us to amend the standard legal-for m lease we provide customers in Arizona to, among other things, include an acknowledgement by the customer of any restrictions on the ability to transfer ownership of the solar energy system or underlying property and provide contact information for any pa rty that has the right to review or approve such a transfer. S.B. 1417, which will take effect ninety days after the close of the current state legislative session, will, among other things, require us to add additional customer acknowledgments of disclosu res that already appear in our customer agreements (e.g., the customer's right to cancel within three business days, the description of major solar energy system components, and certain payment details). Legislation proposed in California would require sim ilar additional disclosures and potential new regulation of our industry.

We strive to comply with all applicable laws and regulations relating to our interactions with residential customers. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. For example, members of the U.S. House of Representatives have sent letters to the Consumer Financial Protection 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. The FTC recently held a public workshop on competition and consumer protection issues relating to the residential solar industry, and we perceive the potential for additional regulatory scrutiny of the industry. While we believe our standard sales practices and policies comply with all applicable laws and regulations, if the CFPB or FTC or other regulators or agencies were to initiate an investigation against us or enact regulations relating to the marketing of solar leases to residential consumers, responding to such investigation or complying with such regulations could require us to modify our operations and incur significant additional expenses, which could have an adverse effect on our business, financial condition and results of operations or could reduce the number of our potential customers.

Additionally, we cannot ensure that our sales force will comply with our standard practices and policies, and any such non-compliance which violates applicable laws or regulations could also expose us to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business. We have incurred, and will continue to incur, significant expenses to comply with such laws and regulations.

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

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

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

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

We are, and may in the future become, party to litigation. For examples, see the section captioned "Item 1. Legal Proceedings." While we intend to defend against these actions vigorously, the ultimate outcomes of these cases are presently not determinable as they are in a preliminary phase. In general, litigation claims can be expensive and time consuming to bring or defend against, may result in the diversion of management attention and resources from our business and business goals and could result in settlements or damages that could significantly affect financial results and the conduct of our business. It is not possible to predict the final resolution of the litigation to which we currently are or may in the future become party, and the impact of certain of these matters on our business, prospects, financial condition, liquidity, results of operations and cash flows.

Risks Related to our Relationship with Vivint

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

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

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

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

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

- intellectual property, labor, tax, employee benefits, indemnification and other matters arising from our separation from Vivint;
- employee retention and recruiting;
- our ability to use, modify and enhance the intellectual property that we have licensed from Vivint;
- business combinations involving us;
- pricing for shared and transitional services;
- exclusivity arrangements;
- the nature, quality and pricing of products and services Vivint agrees to provide to us; and
- business opportunities that may be attractive to both Vivint and us.

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

Additionally, this agreement prohibits, for a period of five years, either Vivint or us from soliciting for employment any member of the other's executive or senior management team, or any of the other's employees who primarily manage sales, installation or services of the other's products and services. The commitment not to solicit each other's employees lasts for 180 days after such employee finishes employment with us or Vivint. Historically , we have recruited a majority of our sales personnel from Vivint. This agree ment may require us to obtain personnel from other sources, and may limit our ability to continue scaling our business if we are unable to do so. Notwithstanding the above, a small number of direct sellers work for both Vivint and us. To the extent there i s 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 direct sellers could expose us to increased claims, proceedings, litigation and investigations by consumers and regulatory authorities.

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

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

Risks Related to Our Common Stock

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

The trading price of our common stock may be highly volatile. For example, from our initial public offering to June 30, 2016, 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;
- additions or departures of key personnel;
- the failure of securities analysts to cover our common stock;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts;
- securities litigation involving us;
- price and volume fluctuations in the overall stock market;
- volatility in the market price and trading volume of companies in our industry or companies that investors consider comparable;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us or our stockholders;
- the expiration of contractual lock-up agreements;
- litigation or disputes involving us, our industry or both;
- major catastrophic events;
- general economic and market conditions;
- changes in senior management such as the recent resignation of our former chief executive officer and appointment of an interim chief executive officer; 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 experi enced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of our common stock to decline. If the market price of our common stock decreases, investors may not realize any return on investment and may lose some or all of their investments.

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

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

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

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

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

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of June 30, 2016, we had 107.7 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, 1.1 million shares of our common stock reserved for future issuance under our Long-Term Incentive Plan were issued, vested and became immediately tradable without restriction. Approximately 2.7 million additional shares of our common stock reserved for future issuance under our Lon g-Term Incentive Plan will issue, vest and be immediately tradable without restriction on the date that The Blackstone Group L.P., our sponsor, and its affiliates achieve specified returns on their invested capital. For more information regarding the share s reserved under our Long - Term Incentive Plan see the "Equity Compensation Plans" footnote in our annual report on form 10-K for the year ended December 31, 2015.

Further, options to purchase 8.4 million shares of common stock remained outstanding as of June 30, 2016, with 4.0 million of those shares being vested and exercisable as of June 30, 2016. The remaining 4.4 million shares that are not yet vested are subject to ratable time-based vesting over three to five years. All shares subject to time-based vesting will become immediately tradable once vested. As of June 30, 2016, 7.6 million restricted stock units remained outstanding, of which 6.0 million are subject to ratable time-based vesting over one to four years and 1.6 million vest over one to four years subject to individual participants' achievement of quarterly or annual performance goals.

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

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

As of June 30, 2016, 313 Acquisition LLC, which is controlled by our sponsor and its affiliates, beneficially owned approximately 77% of our common stock. Moreover, under our organizational documents and the stockholders agreement with 313 Acquisition LLC, for so long as our existing owners and their affiliates retain significant ownership of us, we will agree to nominate to our board individuals designated by our sponsor, whom we refer to as the sponsor directors. In addition, for so long as 313 Acquisition LLC continues to own shares representing a majority of the total voting power, we will agree to nominate to our board individuals appointed by Summit Partners and Todd Pedersen. Even when our sponsor and its affiliates and certain of its co-investors cease to own shares of our stock representing a majority of the total voting power, for so long as our sponsor and its affiliates continue to own a significant percentage of our stock our sponsor will still be able to significantly influence the composition of our board of directors and the approval of actions requiring stockholder approval. In addition, under the stockholders agreement, affiliates of our sponsor will have consent rights with respect to certain actions involving our company, provided a certain aggregate ownership threshold is maintained collectively by our sponsor and its affiliates, together with Summit Partners, Todd Pedersen and Alex Dunn and their respective affiliates. Accordingly, for such period of time, our sponsor and certain of its co-investors will have significant influence with respect to our management, business plans and policies, including the appointment and removal of our officers. In particular, for so long as our sponsor and its affiliates continue to own a significant percentage of our stock, our sponsor will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive you of an opportunity to receive a premium for your shares of common stock as part of a sale of our company and ultimately might affect the market price of our common stock.

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

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

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

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

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

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

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

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

Item 6. Exhibits

10.1	Release of Claims between the Company and Gregory Butterfield, dated May 2, 2016
10.2	Offer Letter between the Company and David Bywater, dated May 2, 2016
10.3	Amended and Restated Involuntary Termination Protection Agreement between the Company and Dana Russell, dated May 12, 2016
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
*	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: August 8, 2016

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

Date: August 8, 2016

/s/ Dana C. Russell
Dana C. Russell
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

Exhibit 10.1

[Execution Copy]

RELEASE OF CLAIMS

THIS RELEASE OF CLAIMS (this " ***Agreement*** ") is made by and between Vivint Solar, Inc. (the " ***Company*** "), and Gregory S. Butterfield (" ***Executive*** "). The Company and Executive are sometimes collectively referred to herein as the " ***Parties*** " and individually referred to as a " ***Party*** ".

RECITALS

WHEREAS , Executive was employed by the Company until May 2, 2016, when Executive's employment was terminated (" ***Termination Date*** ");

WHEREAS , Executive signed an At-Will Employment Agreement with the Company, effective as of August 28, 2014 (the " ***Proprietary Rights Agreement*** ");

WHEREAS , Executive has agreed to enter into and not revoke a standard release of claims in favor of the Company as a condition to receiving the severance benefits described in Schedule I hereof; and

WHEREAS , the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that Executive may have against the Company and any of the Releasees (as defined below), including, but not limited to, any and all claims arising out of or in any way related to Executive's employment relationship with the Company and the termination of that relationship.

NOW THEREFORE , for good and valuable consideration, including the mutual promises and covenants made herein, the Company and Executive hereby agree as follows:

COVENANTS

1. Termination . Executive's employment with the Company terminated on the Termination Date.

2. Payment of Salary and Receipt of All Benefits . Executive acknowledges and represents that, other than the consideration to be paid in accordance with the terms and conditions set forth on Schedule I, the Company has paid or provided all salary, wages, bonuses, accrued vacation/paid time off, premiums, leaves, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, draws, stock, stock options or other equity awards (including restricted stock unit awards), vesting, and any and all other benefits and compensation due to Executive and that no other reimbursements or compensation are owed to Executive. Executive acknowledges and agrees that, after giving effect to any additional vesting set forth in Schedule I, any unvested compensation or benefits which are unvested as of the Termination Date shall be forfeited without consideration as of the Termination Date.

3. Release of Claims . Executive agrees that the consideration to be paid in accordance with Section 2 represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, Executives, agents, investors, attorneys, stockholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the " ***Releasees*** "). Executive, on Executive ' s own behalf and on behalf of Executive ' s respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation the following:

(a) any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty tinder applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

(d) any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; the Sarbanes Oxley Act of 2002; the Utah Antidiscrimination Act; the California Family Rights Act; the California Equal Pay Law; the California Unruh Civil Rights Act; the California Workers' Compensation Act; the California Labor Code; and the California Fair Employment and Housing Act; the Utah Antidiscrimination Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the nonwithholding or other tax treatment of any of the proceeds received by Executive as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this Section 3 (the " ***Release*** ") shall be and remain in effect in all respects as a complete general release as to the matters released. The Release does not extend to any severance obligations due Executive under this Agreement. The Release does not release claims that cannot be released as a matter of law, including, but not limited to, Executive's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Executive the right to recover any monetary damages against the Company; Executive's release of claims herein bars Executive from recovering such monetary relief from the Company). Executive represents that Executive has made no assignment or transfer of any right, claim, complaint, charge, duty, obligation, demand, cause of action, or other matter waived or released by this Section 3 . Nothing in this Agreement waives Executive's (i) rights under that certain indemnification Agreement between the Company and Executive (the " ***Indemnification Agreement*** "), or (ii) rights to indemnification or any payments under any fiduciary insurance policy, if any, provided by any act or agreement of the Company, state or federal law or policy of insurance.

4. Acknowledgment of Waiver of Claims under ADEA . Executive acknowledges that Executive is waiving and releasing any rights Executive may have under the Age Discrimination in Employment Act of 1967 (" ***ADEA*** ") and that this waiver and release is knowing and voluntary. Executive agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Executive acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Executive was already entitled. Executive further acknowledges that Executive has been advised by this writing that (a) Executive should consult with an attorney prior to executing this Agreement; (b) Executive has at least 21 days within which to consider this Agreement; (c) Executive has 7 days following the execution of this Agreement by the parties to revoke the Agreement; (d) this Agreement shall not be effective until the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law. In the event Executive signs this Agreement and delivers it to the Company in less than the 21-day period identified above, Executive hereby acknowledges that Executive has freely and voluntarily chosen to waive the time period allotted for considering this Agreement. Executive acknowledges and understands that revocation must be accomplished by a written notification to the Chief Legal Officer of the Company that is received prior to the Effective Date.

5. Unknown Claims . Executive acknowledges that Executive has been advised to consult with legal counsel and that Executive is familiar with the principle that a general release does not extend to claims that the releaser does not know or suspect to exist in Executive ' s favor at the time of executing the release, which, if known by Executive, must have materially affected Executive ' s settlement with the releasee. Executive, being aware of this principle, agrees to expressly waive any rights Executive may have to that effect, as well as under any other statute or common law principles of similar effect.

6. No Pending or Future Lawsuits . Executive represents that Executive has no lawsuits, claims, or actions pending in Executive's name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against the Company or any of the other Releasees. Executive confirms that Executive has no knowledge of any wrongdoing involving improper or false claims against a federal or state governmental agency, or any other wrongdoing that involves Executive or any other present or former Company employees, including violations of the federal and state securities laws or the Sarbanes-Oxley Act of 2002.

7. Confidential Information . Executive reaffirms and agrees to observe and abide by the terms of the Proprietary Rights Agreement, specifically including the provisions therein regarding nondisclosure of the Company's trade secrets and confidential and proprietary information, which agreement shall continue in force; *provided, however, that* : (a) as to any provisions regarding competition contained in the Proprietary Rights Agreement that conflict with the provisions regarding competition contained in Appendix A of that certain Involuntary Termination Protection Agreement between the Company and Executive, effective as of June 27, 2014 (the " ***Termination Agreement*** "), the provisions of Appendix A of the Termination Agreement shall control; (b) as to any provisions regarding solicitation of employees contained in Appendix A of the Proprietary Rights Agreement that conflict with the provisions regarding solicitation of employees contained in this Agreement, the provisions of Appendix A of the Termination Agreement shall control.

8. Return of Company Property: Passwords and Password-protected Documents . Executive confirms that Executive has returned to the Company in good working order all keys, files, records (and copies thereof), equipment (including, but not limited to, computer hardware, software and printers, wireless handheld devices, cellular phones and pagers), access or credit cards, Company identification, and any other Company-owned property in Executive's possession or control. Executive further confirms that Executive has cancelled all accounts for Executive's benefit, if any, in the Company's name, including, but not limited to, credit cards, telephone charge cards, cellular phone and/or pager accounts and computer accounts. Executive also confirms that Executive has delivered all passwords in use by Executive at the time of Executive's termination, a list of any documents that Executive created or of which Executive is otherwise aware that are password-protected, along with the password(s) necessary to access such password-protected documents.

9. No Cooperation. Executive agrees that Executive will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Agreement. Executive agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Executive shall state no more than that Executive cannot provide any such counsel or assistance.

10. Breach. In addition to the rights provided in the Section II below, Executive acknowledges and agrees that any material breach of this Agreement (unless such breach constitutes a legal action by Executive challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA), or of any provision of the Proprietary Rights Agreement, shall entitle the Company immediately to recover and/or cease providing the consideration provided to Executive under this Agreement and to obtain damages, except as provided by law, *provided*, *however*, that the Company shall not recover One Hundred Dollars ($100.00) of the consideration already paid pursuant to this Agreement and such amount shall serve as full and complete consideration for the promises and obligations assumed by Executive under this Agreement and the Proprietary Rights Agreement.

11. Attorneys' Fees. In the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

12. No Admission of Liability. Executive understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Executive. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Executive or to any third party.

13. Noncompetition/Nonsolicitation/Nondisparagement. Executive agrees to adhere to the noncompetition, nonsolictiation, and the nondisparagement restrictions set forth in Appendix A of the Termination Agreement.

14. Costs. The Parties shall each bear their own costs, attorneys' fees and other fees incurred in connection with the preparation of this Agreement.

15. Arbitration . THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN UTAH COUNTY IN THE STATE OF UTAH, BEFORE JUDICIAL ARBITRATION & MEDIATION SERVICES (" ***JAMS*** "), PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES (" ***JAMS RULES*** "). THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH UTAH LAW, INCLUDING THE UTAH RULES OF CIVIL PROCEDURE, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL UTAH LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH UTAH LAW, UTAH LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS ' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION 15 WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER O F THEIR DISPUTE RELATING TO TH IS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS PARAGRAPH CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

16. Authority . The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Executive represents and warrants that Executive has the capacity to act on Executive's own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. No Representations . Executive represents that Executive has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Executive has relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

18. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

19. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Executive concerning the subject matter of this Agreement and Executive's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Executive's relationship with the Company, with the exception of the Proprietary Rights Agreement, the Termination Agreement, the indemnification Agreement, and Executive's written equity compensation agreements with the Company.

20. No Oral Modification. This Agreement may only be amended in writing signed by Executive and the Chairman of the Compensation Committee of the Board of Directors of the Company.

21. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Utah, without regard to the choice-of-law provisions. The Utah state courts located in Utah County, Utah and/or the United States District Court for the District of Utah, located in Provo, Utah, shall have exclusive jurisdiction and venue over all controversies relating to or arising out of this Agreement. Executive hereby expressly consents to the exclusive jurisdiction and venue of the Utah state courts in Utah County, Utah and/or the United States District Court for the District of Utah for any disputes arising out of or relating to this Agreement.

22. Effective Date. Executive understands that this Agreement shall be null and void if not executed by Executive within 21 days. Each Party has seven days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth (8th) day after Executive signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the "***Effective Date***").

23. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

24. Voluntary Execution of Agreement . Executive understands and agrees that Executive executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of Executive ’ s claims against the Company and any of the other Releasees. Executive expressly acknowledges that:

(a) Executive has read this Agreement;

(b) Executive has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of Executive’s own choice or has elected not to retain legal counsel;

(c) Executive understands the terms and consequences of this Agreement and of the releases it contains; and

(d) Executive is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF , the Parties have executed this Agreement on the respective dates set forth below.

COMPANY VIVINT SOLAR, INC.

By: /s/ David Bywater

Name: David Bywater

Title: CEO

Dated: 5/2/16

EXECUTIVE Gregory S. Butterfield, an individual

/s/ Gregory S. Butterfield
(Signature)

Dated: 2 May 2016

Schedule I — Termination Agreement Payments and Benefits

1. Executive shall be paid the Accrued Compensation (as defined in the Termination Agreement).

2. In lieu of the amounts set forth in Section 3(b)(i) and Section 3(b)(ii) of the Termination Agreement, Executive shall be paid an amount equal to $1,000,000, with the first payment to be made on the 61st day following the Effective Date (and to include any severance payments that otherwise would have been paid to Executive within the 60 days following the date of Executive's termination of employment), with any remaining payments paid in accordance with the Company's normal payroll practices over a period of 18 months following the Effective Date (the " ***Severance Period.*** ")

3. Treatment of Equity.

(a) Executive currently holds vested options to purchase 1,647,060 shares of common stock of the Company. An additional 156,004 options shall become vested and exercisable, such that a total of 1,803,064 options will be vested and exercisable.

(b) Each option to purchase shares of common stock of the Company issued under the Company's 2013 Omnibus Incentive Plan which was vested and exercisable as of the Termination Date (after giving effect to the foregoing), shall remain outstanding and exercisable until the third anniversary of the Termination Date.

(c) Executive hereby agrees that Executive will not sell, transfer, or dispose of any share of Company common stock acquired pursuant to exercise of an option prior to the 91 st day following the Termination Date.

4. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" ***COBRA*** ") within the time period prescribed pursuant to COBRA for Executive and Executive's eligible dependents, then the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination) until the earlier of (A) the end of the Severance Period or (B) the date upon which Executive and/or Executive's eligible dependents are no longer eligible for COBRA continuation coverage. The reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy. Notwithstanding the foregoing, if it would result in a Company excise tax to reimburse Executive for the COBRA premiums than no such premiums will be reimbursed and if do so would not cause imposition of an excise tax, Executive will be paid a single lump sum of $36,000.

Payments and Benefits upon Termination of Employment without Cause

Cash Severance Payment	•$1,000,000, payable in regular payroll installments over a 18 month period, which provides for a greater payment than the contractual severance requirements of: o 18 months of base salary ($750,000), <u>plus</u> o 150% of the average of performance bonuses paid to Executive during the 3-year period immediately preceding the Effective Date ($183,644, calculated based on the average bonus payments of $0 in respect of 2015, $302,629 in respect of 2014, and $64,658 in respect of 2013).
Continued Employee Benefits	•Reimbursement of COBRA premiums for up to 18 months or, if required by applicable tax law, a single lump sum payment of up to $36,000
Accrued Compensation	•Accrued obligations (e.g., accrued base salary, unused vacation pay, unreimbursed business expenses and accrued and vested benefits under plans)
Treatment of Equity Awards	• <u>Unvested Awards</u> . An additional 156,004 options will become vested and exercisable. All other unvested options will be forfeited. • <u>Vested Awards</u> . Vested options outstanding under the 2013 Omnibus Incentive Plan (including the options which become vested as a result of your termination) will remain outstanding and exercisable until the 60-day anniversary of the date of termination. • <u>Amendment to Options</u> . Vivint Solar will agree to allow your vested options to remain outstanding and exercisable until the third anniversary of the date of termination.
Restrictive Covenants	• <u>Non-Compete</u> : 18 months • <u>Non-Solicitation/Non Hire of Employees</u> : 18 months • <u>Non-Solicitation of Customers</u> : 18 months • <u>Confidentiality</u> : Indefinite • <u>Non-Disparagement</u> : 3 years

Payment of certain amounts is conditioned upon executive signing a standard release of claims against the employer.

The foregoing is a draft summary intended to facilitate the documentation of definitive legal agreements related to the termination of Executive. It is not a legally binding document and does not constitute an amendment or modification of the actual definitive legal documentation. All payments are subject to taxes.

Exhibit 10.2

Vivint Solar, Inc.
3301 North Thanksgiving Way
Suite 500
Lehi, UT 84043

May 2, 2016

Mr. David Bywater

Re: Interim CEO Appointment

Mr. Bywater:

On behalf of Vivint Solar, Inc. (the " Company "), I am pleased to offer you the position of interim chief executive officer (" Interim CEO ") of the Company on the terms set forth in this letter agreement (the " Agreement ").

Position:	You will serve as the Interim CEO, reporting to the Company's Board of Directors (the " Board ").
Term:	Your employment under this Agreement will commence as of May 2, 2016 (the " Start Date ") and will continue until the earliest to occur of: (i) the date on which the Board approves a successor Chief Executive Officer of the Company, (ii) the first anniversary of your Start Date, and (iii) your resignation from this position or the termination of your employment by the Board (the " Interim Period "). Your employment is terminable by you or the Company at any time (for any reason or for no reason).
Compensation:	Your monthly base salary shall be $44,204, subject to increase (but not decrease) as may be approved by the Compensation Committee of the Board (the " Compensation Committee ") from time to time. Your base salary will be payable in accordance with the Company's regular payroll practices. You will receive a sign-on bonus in an amount equal to $150,000 (the " Sign-on Bonus "), payable within 30 days of the Start Date. If you resign from the position of Interim CEO prior to the earlier to occur of (i) the date on which the Board notifies you that it has appointed a successor Chief Executive Officer of the Company and (ii) the first anniversary of your Start Date, the Sign-On Bonus must be repaid to the Company in full. During the Interim Period, you will not be eligible to participate in the Company's annual cash incentive program.

Equity Incentive Award:	In connection with your appointment as Interim CEO, effective as of the Start Date, the Company will award you an option to purchase 1,000,000 shares of common stock of the Company (the " Option ") under its 2014 Equity Incentive Plan (as amended from time to time). The exercise price per share under the Option will be the closing price per share of the Company's common stock on the Start Date. The Option shall vest on earlier to occur of (i) the date on which the Board notifies you that it has appointed a successor Chief Executive Officer of the Company and (ii) the first anniversary of your Start Date, as long as you do not resign from the position of Interim CEO prior to such date, but will only become exercisable beginning on May 2, 2017. The Option shall remain outstanding and exercisable until the tenth anniversary of the Start Date. The Option shall otherwise be subject to the terms of an award agreement that you will be required to execute in connection with such grant (which, other than as set forth above, shall be consistent with the Company's standard form of award agreement).
Employee Benefits:	Due to your temporary employee status, you will not be eligible for the Company's standard employee benefits, including but not limited to: health coverage, paid vacation, sick leave, other insurance coverage, and bonuses or incentive compensation. However, you will be eligible for certain minimum benefits required by law, such as workers' compensation insurance coverage and Social Security. The Company will reimburse you for any costs to maintain health coverage (and similar coverage) under the insurance plans of your current employer.
Vivint Solar, Inc. Policies and Employment Conditions:	You agree to review the Company's employee handbook, and you agree to thoroughly familiarize yourself with the policies contained in the handbook and other corporate policies of the Company and to abide by them. Additionally, from time to time, the Company may adopt new policies or make important changes to existing policies and will communicate information about its policies to you by way of electronic mail notification, the Company intranet or otherwise, and you agree to thoroughly review such policy communications and to abide by them. The Company may modify salaries, bonuses and benefits from time to time.
Withholdings and Taxes:	All forms of compensation referred to in this agreement are subject to reduction to reflect applicable withholdings and payroll taxes.

Employment Relationship:	Your employment with the Company is for no specific period of time and continues to be "at will," meaning that either you or the Company may terminate your employment at any time and for any reason, with or without notice or cause. Any contrary representations that may have been made to you are superseded by this agreement. This is the full and complete agreement between you and the Company on this term. Although your job, duties, compensation and benefits may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and by the Chief Legal Officer of the Company. In addition, as a condition of employment with the Company, you will be required to sign the Company's standard At-Will Employment Agreement, attached hereto as Exhibit A , which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of Company proprietary information. Also, in the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that (i) any and all disputes between you and the Company shall be fully and finally resolved by binding arbitration, and (ii) you are waiving any and all rights to a jury trial.
Miscellaneous:	This Agreement shall forth the terms of your employment with the Company and supersede and replace any prior understandings or agreements, whether oral or written, express or implied, related to the subject matter hereof (excluding, for the avoidance of doubt, any agreement entered into with 313 Acquisition LLC or APX Group, Inc.). This agreement is entered into without reliance upon any promise, warranty or representation, written or oral, express or implied, other than those expressly contained herein, and it supersedes any other such promises, warranties, representations or agreements. It may not he amended or modified except by a written instrument signed by you and the Chief Legal Officer of the Company. If any provision of this agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this agreement, which will remain in full force and effect. This agreement will be construed and interpreted in accordance with the laws of the State of Utah, without reference to the choice of law provisions thereof.

We have a dynamic organization and look forward to work with you both to strengthen the Company and rise to meet the challenges ahead . Please sign this letter and the At-Will Employment Agreement (Exhibit A) where indicated and return the same to us promptly.

Sincerely,

Vivint Solar, Inc.

/s/ Shawn Lindquist
By: Shawn Lindquist
Its: EVP

Agreed and accepted this 2 nd day of May, 2016:

/s/ David Bywater
David Bywater

VIVINT SOLAR, INC.

AMENDED AND RESTATED

INVOLUNTARY TERMINATION PROTECTION AGREEMENT

THIS AMENDED AND RESTATED INVOLUNTARY TERMINATION PROTECTION AGREEMENT (this " ***Agreement*** ") is made and entered into by and between Dana C. Russell (" ***Executive*** ") and Vivint Solar, Inc. (the " ***Company*** "), effective as of May 12, 2016 (the " ***Effective Date*** ").

RECITALS

The Board of Directors of the Company (the " ***Board*** ") believes that it is in the best interest of the Company and its stockholders to assure that the Company shall have the continued dedication and objectivity of Executive, to provide Executive with an incentive to continue Executive's employment with the Company, and to motivate Executive to maximize the value of the Company for the benefit of its stockholders.

The Board believes that it is important to provide Executive with certain severance benefits upon Executive's termination of employment under certain circumstances. These benefits shall provide Executive with enhanced financial security and incentive and encouragement to remain with the Company.

This Agreement amends and restates the Involuntary Termination Protection Agreement dated June 26, 2014, by and between the Company and Executive.

AGREEMENT

NOW, THEREFORE , for good and valuable consideration, including the mutual covenants contained herein, the Company and Executive hereby agree as follows:

1. Term of Agreement . This Agreement shall terminate upon the date that all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment . The Company and Executive acknowledge that Executive's employment is and shall continue to be at-will, as defined under applicable law. If Executive's employment terminates for any reason, including (without limitation) any termination for Cause, Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or as may otherwise be available in accordance with the Company's established employee plans that provide benefits other than in the nature of severance or separation pay.

3. Severance Benefits .

(a) Voluntary Resignation ; Termination for Cause. If Executive's employment with the Company terminates (i) voluntarily by Executive other than for Good Reason, or (ii) for Cause by the Company, then Executive shall not be entitled to receive any payment other than accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Executive under any Company's established employee plans, policies, and arrangements that provide benefits other than in the nature of severance or separation pay (" ***Accrued Compensation*** ").

(b) Involuntary Termination other than for Cause or Voluntary Termination for Good Reason outside of the Change of Control Period. If, outside of the Change of Control Period, (i) the Company terminates Executive's employment with the Company other than for Cause (excluding by reason of death or Disability) or (ii) if Executive resigns from such employment for Good Reason, then subject to Section 4 below and in addition to any Accrued Compensation, Executive shall receive the following:

(i) Non-COC Severance Payment. Executive shall be paid an amount equal to 1.5x the sum of (A) Executive's base salary rate, as then in effect, plus (B) the average of performance bonuses paid to Executive for each year Executive was employed by the Company during the 3-year period immediately preceding the date of Executive's termination of employment (the " ***Non-COC Severance*** "). The Non-COC Severance will be paid, less applicable withholdings, in equal installments over a period of 12 months following the date Executive's employment with the Company terminates (the " ***Non-COC Severance Period*** "), with the first payment to be made on the 61st day following Executive's termination of employment (and to include any severance payments that otherwise would have been paid to Executive within the 60 days following the date of Executive's termination of employment), with any remaining payments paid in accordance with the Company's normal payroll practices for the remainder of the Non-COC Severance Period.

(ii) Non-COC Additional Bonus Payment. Executive shall be paid an amount equal to a pro-rata portion of the annual bonus paid to Executive in respect of the fiscal year which ended prior to the fiscal year that contained the date of Executive's termination of employment (the " ***Non-COC Additional Bonus*** "). The pro-rata portion will be based on the number of days that elapsed in the fiscal year between the first day of the fiscal year and the date of Executive's termination of employment compared to 365. This Non-COC Additional Bonus will be paid, less applicable withholdings, in equal installments over the Non-COC Severance Period, with the first payment to be made on the 61st day following Executive's termination of employment (and to include any Non-COC Additional Bonus amount that otherwise would have been paid to Executive within the 60 days following the date of Executive's termination of employment), with any remaining payments paid in accordance with the Company's normal payroll practices for the remainder of the Non-COC Severance Period.

(iii) Continued Employee Benefits. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" ***COBRA*** ") within the time period prescribed pursuant to COBRA for Executive and Executive's eligible dependents, then the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination) until the earlier of (A) the end of the Non-COC Severance Period or (B) the date upon which Executive and/or Executive's eligible dependents are no longer eligible for COBRA continuation coverage. The reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy. Notwithstanding the first sentence of this Section 3(b)(iii), if, at the time of Executive's termination of employment, it would result in a Company excise tax to reimburse Executive for the COBRA premiums than no such premiums will be reimbursed and if do so would not cause imposition of an excise tax, Executive will be paid a single lump sum of $24,000.

(c) Involuntary Termination other than for Cause or Voluntary Termination for Good Reason within the Change of Control Period. If, within the Change of Control Period, (i) the Company terminates Executive's employment without Cause (excluding by reason of death or Disability) or (ii) Executive terminates Executive's employment with the Company for Good Reason, then, subject to Section 4 below and in addition to any Accrued Compensation, Executive shall receive the following severance from the Company:

(i) COC Severance Payment. Executive shall be paid an amount equal to 2.0x (or 1.5x, if Executive's termination of employment occurs following the Adjustment Date) the sum of (A) Executive's base salary rate, as then in effect, plus (B) the average of the performance bonuses paid to Executive for each year Executive was employed by the Company during the 3-year period immediately preceding the date of Executive's termination of employment (the " ***COC Severance*** "). The COC Severance will be paid, less applicable withholdings, in a lump sum on the 61 st day following Executive's termination of employment. For the avoidance of doubt, if (x) Executive incurred a termination prior to a Change of Control that qualifies Executive for severance payments under Section 3(b)(i) above; and (y) a Change of Control occurs within six months following Executive's termination of employment that qualifies Executive for the superior benefits under this Section 3(c)(i), then Executive shall be entitled to a lump-sum payment of the amount calculated under this Section 3(c)(i), less amounts already paid under Section 3(b)(i) above.

(ii) COC Additional Bonus Payment. Executive shall be paid an amount equal to a pro-rata portion of the annual performance bonus that would have been paid to Executive had Executive been employed by the Company for the entire fiscal year that contained the date of Executive's termination of employment, based on actual performance for such fiscal year (and assuming that any performance objectives that are based on individual performance are achieved at target levels) (the " ***COC Additional Bonus*** "). This COC Bonus Severance will be paid in a lump sum, less applicable withholdings, at the same time as annual performance bonuses are paid to other Company executives. For the avoidance of doubt, if (x) Executive incurred a termination prior to a Change of Control that qualifies Executive for severance payments under Section 3(a)(ii) above; and (y) a Change of Control occurs within six months following Executive's termination of employment that qualifies Executive for superior benefits under this Section 3(c)(ii), then Executive shall be entitled to a lump-sum payment of the amount calculated under this Section 3(c)(ii), less amounts already paid under Section 3(b)(ii) above, but in no case less than $0.

(iii) Equity Compensation Acceleration. 100% of Executive's then unvested outstanding stock options, restricted stock units and other Company equity compensation awards, including any equity awards transferred to Executive's estate planning vehicles (the " ***Equity Compensation Awards*** ") shall immediately vest and become exercisable. In the case of equity awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at target levels. Any Company stock options and stock appreciation rights shall thereafter remain exercisable following Executive's employment termination for the period prescribed in the respective option and stock appreciation right agreements.

(iv) Continued Employee Benefits. If Executive elects continuation coverage pursuant to the COBRA within the time period prescribed pursuant to COBRA for Executive and Executive's eligible dependents, then the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination) until the earlier of (A) the end of 18 months or (B) the date upon which Executive and/or Executive's eligible dependents are no longer eligible for COBRA continuation coverage. The reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy. Notwithstanding the first sentence of this Section 3(c)(iv), if, at the time of Executive's termination of employment, it would result in a Company excise tax to reimburse Executive for the COBRA premiums than no such premiums will be reimbursed and if do so would not cause imposition of an excise tax, Executive will be paid a single lump sum of $36,000.

(d) Termination for Death or Disability. If Executive's employment is terminated as a result of Executive's Disability or death, Executive (or Executive's estate) shall not be entitled to receive any payment other than Accrued Compensation.

(e) Exclusive Remedy . In the event of a termination of Executive's employment, the provisions of Section 3 are intended to be and are exclusive an in lieu of any other rights or remedies to which Executive or the Company otherwise may be entitled, whether at law, tort, or contract, in equity, or under this Agreement (other than the payment of Accrued Compensation) . For the avoidance of doubt, Executive shall in no circumstances be entitled to both benefits pursuant to Section 3(b) and the benefits pursuant to Section 3(c), except as specifically set out in Section 3(c) . Executive will be entitled to no benefits, compensation, or other payments or rights upon a termination of employment other than those benefits expressly set forth in Section 3 of this Agreement.

4. Conditional Nature of Severance Payments and Benefits .

(a) Release of Claims Agreement . The receipt of any severance payments or benefits pursuant to this Agreement is subject to Executive signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit A (the " ***Release*** "), which must become effective and irrevocable no later than the 60 th day following Executive's termination of employment (the " ***Release Deadline*** "). If the Release does not become effective and irrevocable by the Release Deadline, Executive shall forfeit any right to severance payments or benefits under this Agreement. In no event shall severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable. Any severance payments or benefits under this Agreement will be paid, or, in the case of installments, will commence, on the first regularly scheduled payroll date following the date the Release becomes effective and irrevocable, or if later, such time as required by Section 4(c)(iii) below.

(b) Restrictive Covenants . During the term of Executive's employment and for the Restricted Period, Executive shall comply with the restrictive covenants set forth on Appendix A (collectively, the " ***Restrictive Covenants*** "). Executive's receipt of any payments or benefits under Section 3 shall be subject to Executive continuing to comply with the terms of the Restrictive Covenants.

(c) Section 409A .

(i) Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the " ***Code*** "), and the final regulations and any guidance promulgated thereunder (" ***Section 409A*** ") (together, the " ***Deferred Payments*** ") shall be paid or otherwise provided until Executive has a "separation from service" within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) shall be payable until Executive has a "separation from service" within the meaning of Section 409A.

(ii) It is intended that none of the severance payments under this Agreement will constitute "Deferred Payments" but rather will be exempt from Section 409A as a payment that would fall within the "short-term deferral period" as described in Section 4(c)(iv) below or resulting from an involuntary separation from service as described in Section 4(c)(v) below . However, any severance payments or benefits under this Agreement that would be considered Deferred Payments shall be paid on, or, in the case of installments, shall not commence until, the 61 st day following Executive's separation from service, or, if later, such time as required by Section 4(c)(iii) . Except as required by Section 4(c)(iii), any installment payments that would have been made to Executive during the 60 day period immediately following Executive's separation from service but for the preceding sentence shall be paid to Executive on the 61 st day following Executive's separation from service and the remaining payments shall be made as provided in this Agreement.

(iii) Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's termination (other than due to death), then the Deferred Payments, if any, that are payable within the first six months following Executive's separation from service, shall become payable on the first payroll date that occurs on or after the date six months and one day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, shall be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but before the six month anniversary of the separation from service, then any payments delayed in accordance with this paragraph shall be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments shall be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

(iv) Any amount paid under this Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Payments for purposes of Section 4(c)(i) above.

(v) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) shall not constitute Deferred Payments for purposes of Section 4(c)(i)above. " ***Section 409A Limit*** " will mean two times the lesser of: (1) Executive's annualized compensation based upon the annual rate of pay paid to Executive during Executive's taxable year preceding the Executive's taxable year of Executive's separation from service as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1); or (2) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's separation from service occurs.

(vi) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder shall be subject to the additional tax imposed under Section 409A, and any ambiguities herein shall be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition before actual payment to Executive under Section 409A. In no event will the Company reimburse Executive for any tax obligations incurred by Executive as a result of the application of Section 409A.

5. Golden Parachute Excise Tax Best Results . In the event that the severance and other benefits provided for in this agreement or otherwise payable to Executive (a) constitute "parachute payments" within the meaning of Code Section 280G and (b) would be subject to the excise tax imposed by Code Section 4999, then such benefits shall be either:

(i) delivered in full, or

(ii) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income and employment taxes and the excise tax imposed by Code Section 4999, results in the receipt by Executive, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Code Section 4999. Unless the Company and Executive otherwise agree in writing, the determination of Executive's excise tax liability and the amount required to be paid under this Section 5 shall be made in writing by a nationally recognized certified professional services firm selected by the Company, the Company's legal counsel or such other person or entity to which the parties mutually agree (the " ***Firm*** "). For purposes of making the calculations required by this Section 5, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Code Sections 280G and 4999. The Company and Executive shall furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 5. The Company shall bear all costs the Firm may reasonably incur in connection with any calculations contemplated by this Section 5. Any reduction in payments and/or benefits required by this Section 5 shall occur in the following order: (i) reduction of cash payments; (ii) cancellation of awards granted "contingent on a change in ownership or control" (within the meaning of Code Section 280G); (iii) cancellation of accelerated vesting of equity awards; or (iv) reduction of employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting will be cancelled in the reverse order of the date of grant of Executive's equity awards. If two or more equity compensation awards are granted on the same date, each award shall be reduced on a pro-rata basis.

6. Definition of Terms . The following terms referred to in this Agreement shall have the following meanings:

(a) Adjustment Date . " ***Adjustment Date*** " means the 3-year anniversary of the date the United Securities and Exchange Commission declares effective the Company's S-1 registration statement filed in connection with its initial public offering.

(b) Cause . " ***Cause*** " means any of the following occurring during Executive's employment by the Company (except with respect to clause (v) below): (i) material personal dishonesty by Executive involving Company business or participation in a fraud against the Company, or Executive's breach of Executive's fiduciary duty to Company; (ii) Executive's indictment or conviction of a felony or other crime involving moral turpitude or dishonesty; (iii) Executive's willful material refusal to comply with the lawful requests made of Executive by the Board reasonably related to Executive's employment by the Company and the performance of Executive's duties with respect thereto (but which shall not include a request to waive or amend any portion of this Agreement or terminate this Agreement or to consent to an action that would result in Executive's loss of a right under this Agreement); (iv) Executive's material violation of the Company's policies, after written notice to Executive and an opportunity to be heard by the

Board and Executive's failure to fully cure such violations within a reasonable period of time of not less than thirty (30) days after such hearing; (v) Executive's threats or acts of violence in the workplace; (vi) Executive's unlawful harassment in the course of any business activity of any employee or independent contractor of the Company; (vii) Executive's theft or unauthorized conversion by or transfer of any Company asset or business opportunity to Executive or any third party; and (viii) a material breach by Executive of any material provision of this Agreement or any other agreement with the Company after written notice to Executive and an opportunity to be heard by the Board and Executive's failure to fully cure such breach within a reasonable period of time of not less than thirty (30) days after such hearing.

(c) Change of Control . "Change of Control" means the occurrence of any of the following events:

(i) *Change in Ownership of the Company* . A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (" ***Person*** "), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; or

(ii) *Change in Effective Control of the Company* . A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person shall not be considered a Change of Control; or

(iii) *Change in Ownership of a Substantial Portion of the Company's Assets* . A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For these purposes, persons shall be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing provisions of this definition, a transaction will not constitute a Change of Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

Further and for the avoidance of doubt, a transaction will not constitute a Change of Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(d) Change of Control Period. " ***Change of Control Period*** " means the period beginning on the date six months prior to, and ending on the date that is 18 months following, a Change of Control.

(e) Disability. " ***Disability*** " means that Executive has been unable to perform Executive's duties at the Company as the result of Executive's incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least 30 days' written notice by the Company of its intention to terminate Executive's employment. In the event that Executive resumes the performance of substantially all of Executive's duties hereunder before the termination of Executive's employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(f) Good Reason. " ***Good Reason*** " means Executive's resignation within 90 days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Executive's express written consent:

(i) a material diminution in Executive's title, duties, authority, reporting position or responsibilities measured in the aggregate (it being understood that, following a Change of Control, if the Company or its successor, or any parent corporation in a control group of corporations that includes the Company or its successor, whose common equity securities are listed, admitted to trade, or quoted on a national securities exchange, then Executive not serving as the Chief Financial Officer of the publicly traded company (other than as the result of Executive's voluntary resignation not at the request of the Company or its successor or its parent) shall be deemed to constitute a material diminution constituting grounds for a Good Reason termination; provided, that private equity, venture capital or similar parent entity shall not be deemed to be part of the same control group of corporation with the Company or its successor); or

(ii) a material reduction of Executive's base compensation (in other words, a material reduction in Executive's base salary or target bonus opportunity) as in effect immediately prior to such reduction, other than reductions implemented as part of an overall Company-wide reduction program that is applied similarly to all executive officers and is no more than 20%; or

(iii) a material change in the geographic location at which Executive must perform services (in other words, Executive's relocation to a facility or an office location more than a seventy-five (75)-mile radius from Executive's then current location); or

(iv) a material breach by the Company of a material provision of any material agreement between Executive and the Company.

Notwithstanding the foregoing, Executive agrees not to resign for Good Reason without first providing the Company with written notice of the acts or omissions constituting the grounds for Good Reason within ninety (90) days of the initial existence of the grounds for Good Reason and a reasonable cure period of thirty (30) days following the date of such notice.

(g) Restricted Period . " ***Restricted Period*** " means a period of 12 months following the date of Executive's termination of employment; provided, however, that if Executive's termination of employment occurs under the circumstances giving rise to payment under Section 3(b) of this Agreement, the Restricted Period will equal the Non-COC Severance Period.

7. Successors .

(a) The Company's Successors . Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term " ***Company*** " shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 7(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors . The terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Notice .

(a) General . All notices and other communications required or permitted hereunder shall be in writing, shall be effective when given, and shall in any event be deemed to be given upon receipt or, if earlier, (a) five days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid, (b) upon delivery, if delivered by hand, (c) one business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid or (d) one business day after the business day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, and shall be addressed (i) if to Executive, at Executive's last known residential address and (ii) if to the Company, at the address of its principal corporate offices (attention: Secretary), or in any such case at such other address as a party may designate by 10 days' advance written notice to the other party pursuant to the provisions above.

(b) Notice of Termination . Any termination by the Company for Cause or by Executive for Good Reason or Disability or as a result of a voluntary resignation shall be communicated by a notice of termination to the other party hereto given in accordance with Section 8(a) above. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than 30 days after the giving of such notice). The failure by Executive to include in the notice any fact or circumstance which contributes to a showing of Good Reason or Disability shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing Executive's rights hereunder.

9. Miscellaneous Provisions.

(a) No Duty to Mitigate. Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that Executive may receive from any other source.

(b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto and supersedes all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof, including Executive's signed offer letter with the Company in effect as of the Effective Date. This Agreement may not be altered, modified, or amended, nor may any subsequent equity awards granted to Executive have less favorable change in control or severance protection unless such amendment or subsequent document is in writing signed by Executive and specifically referencing this Section 9(d).

(e) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Utah, without regard to the choice-of-law provisions. The Utah state courts in Provo, Utah and/or the United States District Court for the District of Utah, located in Provo, Utah, shall have exclusive jurisdiction and venue over all controversies relating to or arising out of this Agreement. Executive hereby expressly consents to the exclusive jurisdiction and venue of the state courts in Utah County, Utah and/or the United States District Court for the District of Utah, located in Provo, Utah for any disputes arising out of or relating to this Agreement.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) Tax Withholding. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF , each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, to be effective as of the Effective Date.

COMPANY **VIVINT SOLAR, INC.**

By: /s/ David Bywater
David Bywater
Interim Chief Executive Officer

EXECUTIVE

By: /s/ Dana C. Russell
Dana C. Russell

<u>APPENDIX A</u>
Restrictive Covenants

This Appendix A shall supplement the terms of the Amended and Restated Involuntary Termination Protection Agreement (the " ***Agreement*** "). Unless otherwise defined below, capitalized terms used herein shall have the meaning prescribed to them under the Agreement.

1. <u>Noncompetition; Nonsolicitation; Nondisparagement.</u>

(a) Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its affiliates and accordingly agrees as follows:

(b) During Executive's Employment with the Company or its Affiliates (the " ***Employment Term*** ") and for the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever (" ***Person*** "), directly or indirectly solicit or assist in soliciting in competition with the Restricted Group in the Business, the business of any then current or prospective client or customer with whom Executive (or his direct reports) had personal contact or dealings on behalf of the Company during the one-year period preceding Executive's termination of Employment.

(i) During the Restricted Period, Executive will not directly or indirectly:

(A) engage in the Business anywhere in the United States, or in any geographical area that is within 100 miles of any geographical area where the Restricted Group engages in the Business, including, for the avoidance of doubt, by entering into the employment of or rending any services to a Core Competitor, except where such employment or services do not relate in any manner to the Business;

(B) acquire a financial interest in, or otherwise become actively involved with, any Person engaged in the Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant; or

(C) intentionally and adversely interfere with, or attempt to adversely interfere with, business relationships between the members of the Restricted Group and any of their clients, customers, suppliers, partners, members or investors.

(ii) Notwithstanding anything to the contrary in this <u>Appendix A</u> , Executive may, directly or indirectly own, solely as an investment, securities of any Person engaged in a Business (including, without limitation, a Core Competitor) which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such person and (ii) does not, directly or indirectly, own 2% or more of any class of securities of such Person.

(iii) During the Employment Term and the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any Person, directly or indirectly:

(A) solicit or encourage any employee of the Restricted Group to leave the employment of the Restricted Group;

(B) hire any executive-level employee, key personnel, or manager-level employee (i.e., any operations manager or district sales manager) who was employed by the Restricted Group as of the date of Executive's termination of employment with the Company or who left the employment of the Restricted Group coincident with, or within one year prior to or after, the termination of Executive's employment with the Company; or

(C) encourage any consultant of the Restricted Group to cease working with the Restricted Group.

(iv) For purposes of this Agreement:

(A) " ***Affiliate*** " means (i) any person or entity that directly or indirectly controls, is controlled by or is under common control with the Company and/or (ii) to the extent provided by the Committee, any person or entity in which the Company has a significant interest. The term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), as applied to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting or other securities, by contract or otherwise.

(B) " ***Business*** " shall mean (1) origination, installation, or monitoring services related to residential or commercial security, life-safety, energy management or home automation services, (2) installation or servicing of residential or commercial solar panels or sale of electricity generated by solar panels, (3) design, engineering or manufacturing of technology or products related to residential or commercial security, life-safety, energy management or home automation services and/or (4) provision of wireless voice or data services, including internet, into the home.

(C) " ***Core Competitor*** " shall mean ADT Security Services/Tyco Integrated Security, Security Networks, LLC, Protection 1, Inc., Protect America, Inc., Stanley Security Solutions, Inc., Vector Security, Inc., Slomins, Inc., Monitronics International, Inc., Life Alert, Comcast Corporation, Time Warner, Inc., AT&T Inc., Verizon Communications, Inc., DISH Network Corp., DIRECTV, Pinnacle, JAB Wireless, Inc., Clearwire Corporation, CenturyLink, Inc., Cox Communication, Inc. and any of their respective Affiliates and current or future dealers, and Sungevity, Inc., RPS, Sunrun Inc., Solar City Corporation, Clean Power Finance, SunPower Corporation, Corbin Solar Solutions LLC, Galkos Construction, Inc., and any of their respective Affiliates or current or future dealers.

(D) " ***Restricted Group*** " shall mean, collectively, the Company and its subsidiaries and, to the extent engaged in the Business, their respective Affiliates (including The Blackstone Group L.P. and its Affiliates).

(v) Notwithstanding the foregoing, if Executive's principal place of employment is located in California, then the provisions of Sections 1(a)(i), 1(a)(ii), and 1(a)(iv)(B) and (C) of this Appendix A shall not apply following Executive's termination of employment.

(c) During the Employment Term and the three-year period beginning immediately following the Employment Term, Executive agrees not to make, or cause any other person to make, any communication that is intended to criticize or disparage, or has the effect of criticizing or disparaging, the Company or any of its affiliates, agents or advisors (or any of its or their respective employees, officers or directors (it being understood that comments made in Executive's good faith performance of his duties hereunder shall not be deemed disparaging or defamatory for purposes of this Agreement) . Nothing set forth herein shall be interpreted to prohibit Executive from responding truthfully to incorrect public statements, making truthful statements when required by law, subpoena or court order and/or from responding to any inquiry by any regulatory or investigatory organization.

(d) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 1 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Appendix A is an unenforceable restriction against Executive, the provisions of this Appendix A shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Appendix A is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(e) The period of time during which the provisions of this Section 1 shall be in effect shall be extended by the length of time during which Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

(f) The provisions of Section 1 hereof shall survive the termination of Executive's employment for any reason.

2. Confidentiality; Intellectual Property.

(a) Confidentiality.

(i) Executive will not at any time (whether during or after Executive's employment with the Company) (x) retain or use for the benefit, purposes or account of Executive or any other Person; or (y) disclose, divulge, reveal, communicate, share, transfer or provide access to any Person outside the Company (other than Executive's professional advisers who are bound by confidentiality obligations or otherwise in performance of Executive's duties under Executive's employment and pursuant to customary industry practice), any non-public, proprietary or confidential information --including without limitation trade secrets, know-how, research and development, software, databases, inventions, processes, formulae, technology, designs and other intellectual property, information concerning finances, investments, profits, pricing, costs, products, services, vendors, customers, clients, partners, investors, personnel, compensation, recruiting, training, advertising, sales, marketing, promotions, government and regulatory activities and approvals -- concerning the past, current or future business, activities and operations of the Company, its subsidiaries or Affiliates and/or any third party that has disclosed or provided any of same to the Company on a confidential basis (" ***Confidential Information*** ") without the prior written authorization of the Board.

(ii) " ***Confidential Information*** " shall not include any information that is (a) generally known to the industry or the public other than as a result of Executive's breach of this covenant; (b) made legitimately available to Executive by a third party without breach of any confidentiality obligation of which Executive has knowledge; or (c) required by law to be disclosed; provided that with respect to subsection (c) Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and reasonably cooperate with any attempts by the Company to obtain a protective order or similar treatment.

(iii) Except as required by law, Executive will not disclose to anyone, other than Executive's family (it being understood that, in this Agreement, the term "family" refers to Executive, Executive's spouse, children, parents and spouse's parents) and advisors, the existence or contents of this Agreement; provided that Executive may disclose to any prospective future employer the provisions of this Appendix A . This Section 2(a)(iii) shall terminate if the Company publicly discloses a copy of this Agreement (or, if the Company publicly discloses summaries or excerpts of this Agreement, to the extent so disclosed).

(iv) Upon termination of Executive's employment with the Company for any reason, Executive shall (x) cease and not thereafter commence use of any Confidential Information or intellectual property (including without limitation, any patent, invention, copyright, trade secret, trademark, trade name, logo, domain name or other source indicator) owned or used by the Company, its subsidiaries or Affiliates; and (y) immediately destroy, delete, or return to the Company, at the Company's option, all originals and copies in any form or medium (including memoranda, books, papers, plans, computer files, letters and other data) in Executive's possession or control (including any of the foregoing stored or located in Executive's office, home, laptop or other computer, whether or not Company property) that contain Confidential Information, except that Executive may retain only those portions of any personal notes, notebooks and diaries that do not contain any Confidential Information.

(b) Intellectual Property.

(i) If Executive creates, invents, designs, develops, contributes to or improves any works of authorship, inventions, intellectual property, materials, documents or other work product (including without limitation, research, reports, software, databases, systems, applications, presentations, textual works, content, or audiovisual materials) (" ***Works*** "), either alone or with third parties, at any time during Executive's employment by the Company and within the scope of such employment and/or with the use of any the Company resources (" ***Company Works*** "), Executive shall promptly and fully disclose same to the Company and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all of Executive's right, title, and interest therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition, other intellectual property laws, and related laws) to the Company to the extent ownership of any such rights does not vest originally in the Company. If Executive creates any written records (in the form of notes, sketches, drawings, or any other tangible form or media) of any Company Works, Executive will keep and maintain same. The records will be available to and remain the sole property and intellectual property of the Company at all times.

(ii) Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at the Company's expense (but without further remuneration) to assist the Company in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of the Company's rights in the Company Works.

(iii) Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with the Company any confidential, proprietary or non-public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive shall comply with all relevant policies and guidelines of the Company that are from time to time previously disclosed to Executive, including regarding the protection of Confidential Information and intellectual property and potential conflicts of interest.

(iv) The provisions of Section 2 hereof shall survive the termination of Executive's employment for any reason.

EXHIBIT A

FORM OF RELEASE OF CLAIMS

RELEASE OF CLAIMS

THIS RELEASE OF CLAIMS (this " ***Agreement*** ") is made by and between Vivint Solar, Inc. (the " ***Company*** "), and Dana C. Russell (" ***Executive*** "). The Company and Executive are sometimes collectively referred to herein as the " ***Parties*** " and individually referred to as a " ***Party*** ".

RECITALS

WHEREAS , Executive was employed by the Company until _______ __, 20__, when Executive's employment was terminated (" ***Termination Date*** ");

WHEREAS , Executive signed an [At-Will Employment, Proprietary Information, Invention Assignment, and Arbitration Agreement] with the Company, effective as of _________________ (the " ***Proprietary Rights Agreement*** ");

WHEREAS , in accordance with Section 3[(b)]/[(c)] of that certain Amended and Restated Involuntary Termination Protection Agreement between the Company and Executive, effective as of ________________ (the " ***Termination Agreement*** "), Executive has agreed to enter into and not revoke a standard release of claims in favor of the Company as a condition to receiving the severance benefits described in the Termination Agreement; and

WHEREAS , the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that Executive may have against the Company and any of the Releasees (as defined below), including, but not limited to, any and all claims arising out of or in any way related to Executive's employment relationship with the Company and the termination of that relationship.

NOW THEREFORE , for good and valuable consideration, including the mutual promises and covenants made herein, the Company and Executive hereby agree as follows:

COVENANTS

1. Termination . Executive's employment with the Company terminated on the Termination Date.

2. Payment of Salary and Receipt of All Benefits . Executive acknowledges and represents that, other than the consideration to be paid in accordance with the terms and conditions of the Termination Agreement, the Company has paid or provided all salary, wages, bonuses, accrued vacation/paid time off, premiums, leaves, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, draws, stock, stock options or other equity awards (including restricted stock unit awards), vesting, and any and all other benefits and compensation due to Executive and that no other reimbursements or compensation are owed to Executive.

3. Release of Claims. Executive agrees that the consideration to be paid in accordance with the terms and conditions of the Termination Agreement represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, Executives, agents, investors, attorneys, stockholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the " ***Releasees*** ") . Executive, on Executive's own behalf and on behalf of Executive's respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation the following:

(a) any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

(d) any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; the Sarbanes-Oxley Act of 2002; the Utah Antidiscrimination Act; the California Family Rights Act; the California Equal Pay Law; the California Unruh Civil Rights Act; the California Workers' Compensation Act; the California Labor Code; and the California Fair Employment and Housing Act; the Utah Antidiscrimination Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the nonwithholding or other tax treatment of any of the proceeds received by Executive as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this Section 3 (the " ***Release*** ") shall be and remain in effect in all respects as a complete general release as to the matters released. The Release does not extend to any severance obligations due Executive under the Termination Agreement. The Release does not release claims that cannot be released as a matter of law, including, but not limited to, Executive's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Executive the right to recover any monetary damages against the Company; Executive's release of claims herein bars Executive from recovering such monetary relief from the Company). Executive represents that Executive has made no assignment or transfer of any right, claim, complaint, charge, duty, obligation, demand, cause of action, or other matter waived or released by this Section 3 . Nothing in this Agreement waives Executive's (i) rights under that certain Indemnification Agreement between the Company and Executive, effective as of [DATE] (the " ***Indemnification Agreement*** "), or (ii) rights to indemnification or any payments under any fiduciary insurance policy, if any, provided by any act or agreement of the Company, state or federal law or policy of insurance.

4. Acknowledgment of Waiver of Claims under ADEA . Executive acknowledges that Executive is waiving and releasing any rights Executive may have under the Age Discrimination in Employment Act of 1967 (" ***ADEA*** ") and that this waiver and release is knowing and voluntary. Executive agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Executive acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Executive was already entitled. Executive further acknowledges that Executive has been advised by this writing that (a) Executive should consult with an attorney ***prior*** to executing this Agreement; (b) Executive has at least 21 days within which to consider this Agreement; (c) Executive has 7 days following the execution of this Agreement by the parties to revoke the Agreement; (d) this Agreement shall not be effective until the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law. In the event Executive signs this Agreement and delivers it to the Company in less than the 21-day period identified above, Executive hereby acknowledges that Executive has freely and voluntarily chosen to waive the time period allotted for considering this Agreement. Executive acknowledges and understands that revocation must be accomplished by a written notification to the Chief Legal Officer of the Company that is received prior to the Effective Date.

5. Unknown Claims . Executive acknowledges that Executive has been advised to consult with legal counsel and that Executive is familiar with the principle that a general release does not extend to claims that the releaser does not know or suspect to exist in Executive's favor at the time of executing the release, which, if known by Executive, must have materially affected Executive's settlement with the releasee. Executive, being aware of this principle, agrees to expressly waive any rights Executive may have to that effect, as well as under any other statute or common law principles of similar effect.

6. No Pending or Future Lawsuits . Executive represents that Executive has no lawsuits, claims, or actions pending in Executive's name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against the Company or any of the other Releasees. Executive confirms that Executive has no knowledge of any wrongdoing involving improper or

false claims against a federal or state governmental agency, or any other wrongdoing that involves Executive or any other present or former Company employes, including violations of the federal and state securities laws or the Sarbanes-Oxley Act of 2002.

7. Confidential Information. Executive reaffirms and agrees to observe and abide by the terms of the Proprietary Rights Agreement, specifically including the provisions therein regarding nondisclosure of the Company's trade secrets and confidential and proprietary information, which agreement shall continue in force; *provided*, *however*, that: (a) as to any provisions regarding competition contained in the Proprietary Rights Agreement that conflict with the provisions regarding competition contained in Appendix A of the Termination Agreement, the provisions of Appendix A of the Termination Agreement shall control; (b) as to any provisions regarding solicitation of employees contained in Appendix A of the Proprietary Rights Agreement that conflict with the provisions regarding solicitation of employees contained in this Agreement, the provisions of Appendix A of the Termination Agreement shall control.

8. Return of Company Property; Passwords and Password-protected Documents. Executive confirms that Executive has returned to the Company in good working order all keys, files, records (and copies thereof), equipment (including, but not limited to, computer hardware, software and printers, wireless handheld devices, cellular phones and pagers), access or credit cards, Company identification, and any other Company-owned property in Executive's possession or control. Executive further confirms that Executive has cancelled all accounts for Executive's benefit, if any, in the Company's name, including, but not limited to, credit cards, telephone charge cards, cellular phone and/or pager accounts and computer accounts. Executive also confirms that Executive has delivered all passwords in use by Executive at the time of Executive's termination, a list of any documents that Executive created or of which Executive is otherwise aware that are password-protected, along with the password(s) necessary to access such password-protected documents.

9. No Cooperation. Executive agrees that Executive will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Agreement. Executive agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Executive shall state no more than that Executive cannot provide any such counsel or assistance.

10. Breach. In addition to the rights provided in the Section 11 below, Executive acknowledges and agrees that any material breach of this Agreement (unless such breach constitutes a legal action by Executive challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA), or of any provision of the Proprietary Rights Agreement, shall entitle the Company immediately to recover and/or cease providing the consideration provided to Executive under this Agreement and to obtain damages, except as provided by law, *provided*, *however*, that the Company shall not recover One Hundred Dollars ($100.00) of the consideration already paid pursuant to this Agreement and such amount shall serve as full and complete consideration for the promises and obligations assumed by Executive under this Agreement and the Proprietary Rights Agreement.

11. Attorneys' Fees. In the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

12. No Admission of Liability. Executive understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Executive. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Executive or to any third party.

13. Noncompetition/Nonsolicitation/Nondisparagement. Executive agrees to adhere to the noncompetition, nonsolictiation, and the nondisparagement restrictions set forth in Appendix A of the Termination Agreement.

14. Costs. The Parties shall each bear their own costs, attorneys' fees and other fees incurred in connection with the preparation of this Agreement.

15. Arbitration. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN UTAH COUNTY IN THE STATE OF UTAH, BEFORE JUDICIAL ARBITRATION & MEDIATION SERVICES ("***JAMS***"), PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("***JAMS RULES***"). THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH UTAH LAW, INCLUDING THE UTAH RULES OF CIVIL PROCEDURE, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL UTAH LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH UTAH LAW, UTAH LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION 15 WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS PARAGRAPH CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

16. Authority . The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement . Executive represents and warrants that Executive has the capacity to act on Executive’s own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement . Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. No Representations . Executive represents that Executive has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Executive has relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

18. Severability . In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

19. Entire Agreement . This Agreement represents the entire agreement and understanding between the Company and Executive concerning the subject matter of this Agreement and Executive’s employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Executive’s relationship with the Company, with the exception of the Proprietary Rights Agreement, the Termination Agreement, the Indemnification Agreement, and Executive’s written equity compensation agreements with the Company.

20. No Oral Modification . This Agreement may only be amended in writing signed by Executive and the Chairman of the Compensation Committee of the Board of Directors of the Company.

21. Governing Law . The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Utah, without regard to the choice-of-law provisions. The Utah state courts located in Utah County, Utah and/or the United States District Court for the District of Utah, located in Provo, Utah, shall have exclusive jurisdiction and venue over all controversies relating to or arising out of this Agreement. Executive hereby expressly consents to the exclusive jurisdiction and venue of the Utah state courts in Utah County, Utah and/or the United States District Court for the District of Utah for any disputes arising out of or relating to this Agreement.

22. Effective Date . Executive understands that this Agreement shall be null and void if not executed by Executive within 21 days. Each Party has seven days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth (8th) day after Executive signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the “ ***Effective Date*** ”).

23. Counterparts . This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

24. Voluntary Execution of Agreement . Executive understands and agrees that Executive executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of Executive's claims against the Company and any of the other Releasees . Executive expressly acknowledges that:

(a) Executive has read this Agreement;

(b) Executive has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of Executive's own choice or has elected not to retain legal counsel;

(c) Executive understands the terms and consequences of this Agreement and of the releases it contains; and

(d) Executive is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF , the Parties have executed this Agreement on the respective dates set forth below.

COMPANY VIVINT SOLAR, INC.

By:

Name:

Title:

Dated:

EMPLOYEE Dana C. Russell, an individual

(Signature)

Dated:

[*Signature Page to Release of Claims*]

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: August 8, 2016

/s/ David Bywater

David Bywater
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

I, Dana C. 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: August 8, 2016

/s/ Dana C. Russell

Dana C. 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 June 30, 2016 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.

August 8, 2016.

/s/ David Bywater
David Bywater
Interim 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 C. 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 June 30, 2016 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.

August 8, 2016.

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