Sunrun Inc.
Form 10-Q
May 13, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-37511

Sunrun Inc.

(Exact name of registrant as specified in its charter)

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

595 Market Street, 29th Floor

San Francisco, California 94105

(Address of principal executive offices and Zip Code)

(415) 580-6900

(Registrant's telephone number, including area code)

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

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

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

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

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

As of May 10, 2016, the number of shares of the registrant's common stock outstanding was 101,962,958.

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Sunrun Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Par Values)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash	$208,313	$203,864
Restricted cash	9,246	9,203
Accounts receivable (net of allowances for doubtful accounts of $1,167 and $1,641 as of March 31, 2016 and December 31, 2015, respectively)	56,774	60,275
State tax credits receivable	—	9,198
Inventories	94,682	71,258
Prepaid expenses and other current assets	13,903	5,917
Total current assets	382,918	359,715
Restricted cash	6,125	8,094
Solar energy systems, net	2,137,015	1,992,021
Property and equipment, net	51,897	44,866
Intangible assets, net	21,653	22,705
Goodwill	87,543	87,543
Prepaid tax asset	222,596	190,146
Other assets	31,833	29,502
Total assets(1)	$2,941,580	$2,734,592
Liabilities and total equity		
Current liabilities:		
Accounts payable	$93,701	$104,133
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	7,368	8,144
Accrued expenses and other liabilities	53,826	49,146
Deferred revenue, current portion	65,820	59,726
Deferred grants, current portion	14,399	13,949
Capital lease obligation, current portion	10,890	8,951
Long-term non-recourse debt, current portion	5,591	4,722
Lease pass-through financing obligation, current portion	4,540	3,710
Total current liabilities	256,135	252,481
Deferred revenue, net of current portion	577,220	559,066
Deferred grants, net of current portion	216,176	220,784
Capital lease obligation, net of current portion	17,154	15,042
Recourse debt	191,000	197,000
Long-term non-recourse debt, net of current portion	436,196	333,042
Lease pass-through financing obligation, net of current portion	143,020	153,188
Other liabilities	8,863	7,144
Deferred tax liabilities	222,596	190,146
Total liabilities(1)	2,068,360	1,927,893
Commitments and contingencies (Note 13)		

Redeemable noncontrolling interests	138,049	147,139
Stockholders' equity:		
Preferred stock, $0.0001 par value—authorized, 200,000 shares as of March 31, 2016 and December 31, 2015; issued and outstanding, 0 shares as of March 31, 2016 and December 31, 2015	—	—
Common stock, $0.0001 par value—authorized, 2,000,000 shares as of March 31, 2016 and December 31, 2015; issued and outstanding, 101,578 and 101,282 shares as of March 31, 2016 and December 31, 2015, respectively	10	10
Additional paid-in capital	646,092	642,229
Accumulated other comprehensive loss	(6,194)	(921)
Accumulated deficit	(74,115)	(87,249)
Total stockholders' equity	565,793	554,069
Noncontrolling interests	169,378	105,491
Total equity	735,171	659,560
Total liabilities, redeemable noncontrolling interests and total equity	$2,941,580	$2,734,592

(1) The Company's consolidated assets as of March 31, 2016 and December 31, 2015 include $1,551,054 and $1,363,615, respectively, in assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. Solar energy systems, net, as of March 31, 2016 and December 31, 2015 were $1,440,936 and $1,305,420, respectively; cash as of March 31, 2016 and December 31, 2015 were $94,953 and $44,407, respectively; restricted cash as of March 31, 2016 and December 31, 2015 were $580 and $757, respectively; accounts receivable, net as of March 31, 2016 and December 31, 2015 were $14,558 and $12,965, respectively; prepaid expenses and other current assets as of March 31, 2016 and December 31, 2015 were $27 and $66, respectively. The Company's consolidated liabilities as of March 31, 2016 and December 31, 2015 include $550,456 and $540,464, respectively, in liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable as of March 31, 2016 and December 31, 2015 of $10,857 and $11,025, respectively; distributions payable to noncontrolling interests and redeemable noncontrolling interests as of March 31, 2016 and December 31, 2015 of $7,318 and $8,063, respectively; accrued expenses and other liabilities as of March 31, 2016 and December 31, 2015 of $264 and $175, respectively; deferred revenue as of March 31, 2016 and December 31, 2015 of $387,867 and $374,736, respectively; deferred grants as of March 31, 2016 and December 31, 2015 of $113,901 and $115,726, respectively; and long-term non-recourse debt as of March 31, 2016 and December 31, 2015 of $30,249 and $30,739, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Sunrun Inc.

Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended March 31, 2016	2015
Revenue:		
Operating leases and incentives	$ 34,540	$ 22,308
Solar energy systems and product sales	64,203	27,369
Total revenue	98,743	49,677
Operating expenses:		
Cost of operating leases and incentives	38,100	21,377
Cost of solar energy systems and product sales	57,512	25,330
Sales and marketing	43,188	24,926
Research and development	2,463	2,287
General and administrative	23,248	20,306
Amortization of intangible assets	1,052	542
Total operating expenses	165,563	94,768
Loss from operations	(66,820)	(45,091)
Interest expense, net	11,515	7,130
Other expenses (income), net	(532)	299
Loss before income taxes	(77,803)	(52,520)
Income tax benefit	—	—
Net loss	(77,803)	(52,520)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(90,937)	(34,525)
Net income (loss) attributable to common stockholders	$ 13,134	$ (17,995)
Net income (loss) per share attributable to common stockholders		
Basic	$ 0.13	$ (0.74)
Diluted	$ 0.13	$ (0.74)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders		
Basic	101,273	24,427
Diluted	104,219	24,427

The accompanying notes are an integral part of these consolidated financial statements.

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Sunrun Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income (loss) attributable to common stockholders	$13,134	$(17,995)
Other comprehensive loss:		
Unrealized loss on derivatives, net of tax benefit	(5,798)	(1,793)
Less interest expense on derivatives recognized into earnings	(525)	—
Comprehensive income (loss)	$7,861	$(19,788)

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Sunrun Inc.

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Operating activities:		
Net loss	$(77,803)	$(52,520)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash losses	1,321	—
Depreciation and amortization, net of amortization of deferred grants	21,596	15,429
Bad debt expense	336	457
Interest on lease pass-through financing	3,002	3,474
Noncash interest expense	3,502	2,635
Stock-based compensation expense	3,809	3,220
Reduction in lease pass-through financing obligations	(4,236)	(4,887)
Changes in operating assets and liabilities:		
Accounts receivable	3,595	(5,535)
Inventories	(23,314)	(11,537)
Prepaid and other assets	(4,355)	5,069
Accounts payable	(10,103)	26,932
Accrued expenses and other liabilities	(317)	2,643
Deferred revenue	5,572	12,304
Net cash used in operating activities	(77,395)	(2,316)
Investing activities:		
Payments for the costs of solar energy systems, leased and to be leased	(164,629)	(131,291)
Purchases of property and equipment	(5,023)	(1,947)
Net cash used in investing activities	(169,652)	(133,238)
Financing activities:		
Proceeds from grants and state tax credits, net of recapture	9,202	5,153
Proceeds from recourse debt	141,000	—
Repayment of recourse debt	(147,000)	—
Proceeds from issuance of non-recourse debt	106,400	—
Repayment of non-recourse debt	(2,160)	(690)
Payment of debt fees	(9,369)	—
Proceeds from lease pass-through financing obligations	9,746	35,130
Contributions received from noncontrolling interests and redeemable noncontrolling interests	154,944	59,341
Distributions paid to noncontrolling interests and redeemable noncontrolling interests	(9,986)	(7,521)
Proceeds from exercises of stock options, net of withholding taxes on restricted stock units	452	1,058
Offering costs paid related to initial public offering	(437)	—
Payment of capital lease obligation	(3,115)	(602)
Change in restricted cash	1,819	(2,996)

Net cash provided by financing activities	251,496	88,873
Net increase (decrease) in cash	4,449	(46,681)
Cash, beginning of period	203,864	152,154
Cash, end of period	$208,313	$105,473
Supplemental disclosures of cash flow information		
Cash paid for interest	$4,681	$991
Supplemental disclosures of noncash investing and financing activities		
Costs of solar energy systems and property and equipment included in accounts payable and accrued expenses	$15,769	$19,165
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	$7,368	$5,937
Vehicles acquired under capital leases	$7,318	$2,281

The accompanying notes are an integral part of these consolidated financial statements.

Sunrun Inc.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Organization

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

Sunrun acquires customers directly and through relationships with various solar and strategic partners (“Partners”). The Projects are constructed either by Sunrun or by Sunrun’s Partners and are owned by the Company. Sunrun’s customers enter into a power purchase agreement (“PPA”) or a lease (each, a “Customer Agreement”) which typically has a term of 20 years. Sunrun monitors, maintains and insures the Projects. The Company also sells solar energy systems and products to customers.

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

Sunrun acquired Clean Energy Experts, LLC (“CEE”), a consumer demand and solar lead generation company, in April 2015, to support the growth of the business, including reducing costs of obtaining customer leads externally. As a result of the acquisition, the Company also sells a portion of solar leads generated to customers.

The Company completed its initial public offering in August 2015 and its common stock is listed on the NASDAQ Global Select Market under the symbol “RUN”.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentation. In addition, the Company adopted Accounting Standards Update ("ASU") 2015-03, Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangement. The impact of the Company's adoption of the ASUs on the prior period consolidated balance sheet was as follows (in thousands):

	December 31, 2015		
	As Previously Reported	Adoption of ASU	As Reclassified
Prepaid expenses and other current assets	$ 6,696	$ (779)	$ 5,917
Other assets	32,277	(2,775)	29,502
Long-term non-recourse debt, current portion	5,408	(686)	4,722
Recourse debt	194,975	2,025	197,000
Long-term non-recourse debt, net of current portion	337,935	(4,893)	333,042

Use of Estimates

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

Segment Information

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

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

	Three Months Ended March 31,

	2016	2015
Operating leases	$ 25,327	$ 17,132
Incentives	9,213	5,176
Operating leases and incentives	34,540	22,308
Solar energy systems	30,192	5,806
Products	34,011	21,563
Solar energy systems and product sales	64,203	27,369
Total revenue	$ 98,743	$ 49,677

Fair Value of Financial Instruments

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

- Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and
- Level 3—Inputs that are unobservable, significant to the measurement of the fair value of the assets or liabilities and are supported by little or no market data.

The Company's financial instruments include cash, receivables, accounts payable, accrued expenses, distributions payable to noncontrolling interests, derivatives, and recourse and non-recourse debt.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 Revenue from Contracts with Customers (Topic 606), to replace the existing revenue recognition criteria for contracts with customers and to establish the disclosure requirements for revenue from contracts with customers. The core principle of this standard is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This ASU is effective for the Company for annual reporting periods beginning after December 15, 2017 including the interim reporting periods within that fiscal year, and early adoption is permitted. Adoption of this ASU is either retrospective to each prior period presented or retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently evaluating this guidance and the impact it may have on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, to specify that inventory should be subsequently measured at the lower of cost or net realizable value, which is the ordinary selling price less any completion, transportation and disposal costs. This ASU is effective for interim and annual periods beginning after December 15, 2016. Adoption of this ASU is prospective. The Company is currently evaluating this guidance and the impact it may have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. Under the new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The accounting for lessors is largely unchanged. However, the new guidance now defines what qualifies as sales-type and direct financing leases, as well as the related accounting. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently evaluating this guidance and the impact it may have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It will also allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company is currently evaluating this guidance and the impact it may have on the Company's consolidated financial statements.

Note 3. Fair Value Measurement

At March 31, 2016 and December 31, 2015, the carrying value of receivables, accounts payable, accrued expenses, and distributions payable to noncontrolling interests approximates fair value due to their short-term nature. The carrying values and fair values of debt instruments are as follows (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Lines of credit	$268,100	$268,100	$197,000	$197,000
Syndicated term loans	179,687	179,687	169,344	169,344
Bank term loan	46,774	49,330	30,739	32,692
Note payable	33,748	33,536	32,781	32,568
Solar asset-backed notes	104,478	112,568	104,900	110,103
Total	$632,787	$643,221	$534,764	$541,707

At March 31, 2016, the fair value of the Company’s lines of credit, syndicated term loans, and bank term loan due in September 2022 approximates their carrying values because their interest rates are variable rates that approximate rates currently available to the Company. At December 31, 2015, the fair value of the Company’s lines of credit and syndicated term loans approximates their carrying values because their interest rates are variable rates that approximate rates currently available to the Company. At March 31, 2016 and December 31, 2015, the fair value of the Company’s bank term loan due in April 2022, note payable and asset-backed notes are based on rates currently offered for debt with similar maturities and terms. The Company’s fair value of the debt instruments fell under the Level 3 hierarchy. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market.

The Company determines the fair value of its interest rate swaps using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the interest rate swap counterparty and an evaluation of the Company’s credit risk in valuing derivative instruments. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility.

The Company determines the fair value of its warrants issued using the Black-Scholes option-pricing model. The significant unobservable input used in the fair value measurement of the warrant liability was the expected volatility of the Company. Generally, increases (decreases) in the expected volatility of the Company would result in a directionally similar impact to the measurement of the Company’s stock options.

At March 31, 2016 and December 31, 2015, financial instruments measured at fair value on a recurring basis, based upon the fair value hierarchy are as follows (in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Derivative liabilities:				
Interest rate swaps	$—	$6,194	$ —	$6,194
Warrants	—	—	20	20
Total	$—	$6,194	$ 20	$6,214

December 31, 2015

	Level 1	Level 2	Level 3	Total
Derivative liabilities:				
Interest rate swaps	$—	$921	$ —	$921
Warrants	—	—	557	557
Total	$—	$921	$ 557	$1,478

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Note 4. Inventories

Inventories consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Raw materials	89,556	$ 62,967
Work-in-process	5,126	8,291
Total	$ 94,682	$ 71,258

Note 5. Solar Energy Systems, net

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

	March 31, 2016	December 31, 2015
Solar energy system equipment costs	$ 1,994,193	$ 1,846,103
Inverters	197,145	177,202
Initial direct costs	79,904	68,280
Total solar energy systems	2,271,242	2,091,585
Less: accumulated depreciation and amortization	(232,939)	(212,671)
Add: construction-in-progress	98,712	113,107
Total solar energy systems, net	$ 2,137,015	$ 1,992,021

All solar energy systems, construction-in-progress, and inverters have been leased to or are subject to signed Customer Agreements with customers. The Company recorded depreciation expense related to solar energy systems of $20.4 million and $15.5 million for the three months ended March 31, 2016 and 2015, respectively. The depreciation expense was reduced by the amortization of deferred grants of $4.0 million and $3.6 million for the three months ended March 31, 2016 and 2015, respectively

Note 6. Indebtedness

As of March 31, 2016, debt consisted of the following (in thousands):

	Carrying Values, net of debt discount			Unused Borrowing Capacity	Annual Contractual Interest Rate	Interest Rate	Maturity Date
	Current	Long Term	Total				
Recourse debt:							
Bank line of credit	$—	$ 191,000	$191,000	$ 11,501	Varies (1)	3.45% - 5.75%	April 2018
Total recourse debt	$—	$ 191,000	$191,000	$ 11,501			
Non-recourse debt:							
Line of credit	—	77,100	77,100	8,800	Varies (2)	2.93% - 3.16%	December 2020
Term Loans due in December 2020 and 2021	117	33,032	33,149	1,400	LIBOR + 5.00%	6.00 %	December 2020 and 2021
Term Loan A due in December 2021	727	145,811	146,538	6,400	LIBOR + 2.75%	3.04% - 3.37%	December 2021
Bank term loan due in September 2022	306	16,219	16,525	4,000	LIBOR +2.25%	2.69 %	September 2022
Bank term loan due in April 2022	1,206	29,043	30,249	—	6.25% (3)	6.25 %	April 2022
Note payable	—	33,748	33,748	—	12.00%	12.00 %	December 2018
Solar asset-backed notes	3,235	101,243	104,478	—	4.40% - Class A	4.40 %	July 2024
					5.38% - Class B	5.38 %	July 2024
Total non-recourse debt	5,591	436,196	441,787	20,600			
Total debt	$5,591	$ 627,196	$632,787	$ 32,101			

As of December 31, 2015, debt consisted of the following (in thousands):

	Carrying Values, net of			Unused Borrowing	Annual Contractual	Interest	Maturity

	debt discount Current	Long Term	Total	Capacity	Interest Rate	Rate		Date
Recourse debt:								
Bank line of credit	$—	$ 197,000	$197,000	$ 6,571	Varies (1)	3.67	%	April 2018
Total recourse debt	$—	$ 197,000	$197,000	$ 6,571				
Non-recourse debt:								
Term Loan A due in December 2021	589	146,625	147,214	5,600	LIBOR + 2.75%	3.07	%	December 2021
Term Loan B due in December 2021	116	22,014	22,130	—	LIBOR + 5.00%	6.00	%	December 2021
Bank term loan due in April 2022	1,159	29,580	30,739	—	6.25%	6.25	%	April 2022
Note payable	—	32,781	32,781	—	12.00%	12.00	%	December 2018
Solar asset-backed notes	2,858	102,042	104,900	—	4.40% - Class A	4.40	%	July 2024
					5.38% - Class B	5.38	%	July 2024
Total non-recourse debt	4,722	333,042	337,764	5,600				
Total debt	$4,722	$ 530,042	$534,764	$ 12,171				

(1) Loans under the facility bear interest at LIBOR + 3.25% or the Base Rate + 2.25%. The Base Rate is the highest of the Federal Funds Rate + 0.50%, the Prime Rate, or LIBOR + 1.00%.

(2) Loans under the facility bear interest at LIBOR + 2.50% for the initial three-year revolving availability period, stepping up to LIBOR + 2.75% in the following two-year period, or the Base Rate + 1.50% for the initial three-year revolving availability period, stepping up to 1.75% in the following two-year period. The Base Rate is the highest of the Federal Funds Rate + 0.50%, the Prime Rate, or LIBOR + 1.00%.

(3) Effective April 1, 2016, the annual contractual interest rate was amended to 4.50%.

Bank Line of Credit

In April 2015, the Company entered into a syndicated working capital facility with banks for a total commitment of up to $205.0 million. The working capital facility is secured by substantially all of the unencumbered assets of the Company as well as ownership interests in certain subsidiaries of the Company.

Under the terms of the working capital facility, the Company is required to meet various restrictive covenants, including meeting certain reporting requirements, such as the completion and presentation of audited consolidated financial statements. The Company is also required to maintain minimum unencumbered liquidity of at least $25.0 million in the aggregate as of the last day of each calendar month. The Company is further required to maintain a modified interest coverage ratio of 2.00 or greater, measured quarterly as of the last day of each quarter. The Company was in compliance with all debt covenants as of March 31, 2016.

Non-Recourse Line of Credit

In January 2016, subsidiaries of the Company entered into secured credit facility agreements with a syndicate of banks for up to $250.0 million in committed facilities. The facilities include a $220.0 million aggregate facility ("Aggregate Facility") and a $7.0 million letter of credit facility. The principal and accrued interest on any outstanding loans mature on December 31, 2020.

The facilities are non-recourse to the Company and are secured by net cash flows of certain subsidiaries from power purchase agreements and leases, less certain operating, maintenance and other expenses which are available to the borrowers after distributions to tax equity investors. The facilities contain customary covenants including the requirement to maintain certain financial measurements and provide lender reporting. The credit facilities also contain certain provisions in the event of default which entitle lenders to take certain actions including acceleration of amounts due under the facilities. The Company was in compliance with all debt covenants as of March 31, 2016.

Syndicated Credit Facilities

In January 2016, subsidiaries of the Company entered into secured credit facilities agreements with a syndicate of banks for up to $250.0 million in committed facilities. In addition to the non-recourse line of credit previously described, the facilities include a $23.0 million term loan ("Term Loan"). The Term Loan bears an interest rate of LIBOR + 5.0%, with a LIBOR floor of 1.0%, in the first three years, stepping up to LIBOR plus 6.5% in the following two-year period. The principal and accrued interest on any outstanding loans mature on December 31, 2020.

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

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

The Company is required to maintain certain financial measurements and reporting covenants under the terms of the credit facilities. At March 31, 2016, the Company was in compliance with the credit facility covenants.

Bank Term Loan

In March 2016, a subsidiary of the Company entered into a $24.5 million secured, non-recourse loan agreement with a bank. The loan will be repaid through cashflows from a lease pass-through arrangement previously entered into by the

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Company. The loan matures in September 2022 and has an interest rate of LIBOR + 2.25%. The loan agreement contains customary covenants including the requirement to maintain certain financial measurements and provide lender reporting. The loan also contains certain provisions in the event of default which entitles the lender to take certain actions including acceleration of amounts due under the loan.

In December 2013, a subsidiary of the Company entered into an agreement with a bank for a term loan of $38.0 million. The proceeds of this term loan were distributed to the members of this subsidiary, including the Company. The loan is secured by the assets and related cash flow of this subsidiary and is nonrecourse to the Company's other assets. The Company was in compliance with all debt covenants as of March 31, 2016.

Notes Payable

In December 2013, a subsidiary of the Company entered into a note purchase agreement with an investor for the issuance of senior notes in exchange for proceeds of $27.2 million. The loan proceeds were distributed to the Company for general corporate purposes. On the last business day of each quarter, commencing with March 31, 2014, to the extent the Company's subsidiary has insufficient funds to pay the full amount of the stated interest of the outstanding loan balance, a PIK interest rate of 12% is accrued and added to the outstanding balance. As of March 31, 2016 and December 31, 2015, the portion of the outstanding loan balance that related to PIK interest was $7.2 million and $6.3 million, respectively. The senior notes are secured by the assets and related cash flows of certain of the Company's subsidiaries and are nonrecourse to the Company's other assets. The entire outstanding principal balance is payable in full on the maturity date. The Company was in compliance with all debt covenants as of March 31, 2016.

Solar Asset-Backed Notes

In July 2015, the Company entered into a securitization transaction pursuant to which the Company pooled and transferred qualifying solar energy systems and related lease agreements secured by associated customer contracts ("Solar Assets") into a special purpose entity ("Issuer"), and issued $100.0 million in aggregate principal of Solar Asset-Backed Notes, Series 2015-1, Class A, and $11.0 million in aggregate principal of Solar Asset-Backed Notes, Class B, backed by these Solar Assets to certain investors ("Notes"). The Issuer is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these assets. As of March 31, 2016 and December 31, 2015, these Solar Assets had a carrying value of $188.0 million and $190.2 million, respectively, and are included under Solar energy systems, net, in the consolidated balance sheets. The Notes were issued at a discount of 0.08%.

The Company retained $7.3 million net of fees from proceeds from the Notes. In connection with the transaction, the Company modified two lease pass-through arrangements with an investor. The lease pass-through arrangements had been accounted for as a borrowing and any amounts outstanding from the arrangements were reported as lease pass-through financing obligation as further explained in Note 8, Lease Pass-Through Financing Obligations. The balance that was then outstanding under these arrangements was $119.7 million. The Company partially repaid this obligation by paying the investor an aggregate amount of $88.9 million. The Company accounted for the modification of the lease pass-through obligation as a modification of debt and did not record any gain or loss on the transaction.

The modified lease-pass through arrangements require the majority of the cash flows generated by the Solar Assets to be passed on to the Issuer through monthly lease payments from the investor. Those cash flows are used to service the monthly principal of the Notes and interest payments and satisfy the Issuer's expenses, and any residual cash flows are retained by the fund investor and recorded as a reduction in the remaining financing obligation. The Company recognizes revenue earned from the associated Customer Agreements in accordance with the Company's revenue recognition policy. The assets and cash flows generated by the Solar Assets are not available to the other creditors of the Company, and the creditors of the Issuer, including the Note holders, have no recourse to the Company's other assets. The Company was in compliance with all debt covenants as of March 31, 2016.

Note 7. Derivatives

Interest Rate Swaps

The Company uses interest rate swaps to hedge variable interest payments due on its syndicated term loans. These swaps allow the Company to incur fixed interest rates on these loans and receive payments based on variable interest rates with the swap counterparty based on the three month LIBOR on the notional amounts over the life of the swaps.

In January 2015, the Company purchased interest rate swaps with a notional amount aggregating $109.1 million. The interest rate swap contracts were executed with four counterparties who were part of the lender group on the Company's syndicated term loans. As of March 31, 2016, the unrealized fair market value loss on the interest rate swaps was $6.2 million as included in other liabilities in the consolidated balance sheet.

The interest rate swaps have been designated as cash flow hedges. In the three months ended March 31, 2016, the hedge relationships on the Company's interest rate swaps have been assessed as highly effective as the critical terms of the interest rate swaps match the critical terms of the underlying forecasted hedged transactions. Accordingly, changes in the fair value of these derivatives are recorded as a component of accumulated other comprehensive loss, net of income taxes. Changes in the fair value of these derivatives are subsequently reclassified into earnings, and are included in interest expense, net in the Company's statement of operations, in the period that the hedged forecasted transactions affects earnings. During the next twelve months, the Company estimates that an additional $1.8 million will be reclassified as an increase to interest expense. There were no undesignated derivative instruments recorded by the Company as of March 31, 2016.

At March 31, 2016, the Company had the following designated derivative instruments classified as derivative liabilities as reported in other liabilities in the Company's balance sheet (in thousands, other than quantity and interest rates):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Notional Amount	Fair Market Value	Credit Risk Adjustment	Adjusted Fair Market Value
Interest rate swaps	4	10/31/2028	2.17%-2.18%	$109,143	$6,557	$ (363)	$ 6,194

Warrants

In July 2015, the Company entered into a letter of intent to issue 1,250,764 warrants to purchase the Company's common stock to the former Series D and E preferred stockholders as an inducement to convert their shares of convertible preferred stock into shares of common stock immediately prior to the closing of the Company's initial public offering and waive any potential anti-dilution adjustments resulting from the issuance of shares of the Company's common stock in the Company's initial public offering. The warrants were issued on September 30, 2015. The warrants are exercisable for three years from the date of grant and have an exercise price of $22.50 per share. The warrant derivatives are recorded at fair value as derivative liabilities as reported in other liabilities in the Company's consolidated balance sheet. The fair market value of the warrants on the commitment date was $1.5 million. The warrants are remeasured at each reporting period with the changes in the fair value presented in other expenses (income), net in the Company's statement of operations.

At March 31, 2016, the fair market value of the warrants was $0.1 million. At December 31, 2015, the fair market value of the warrants was $0.6 million, resulting in a gain of $0.5 million for the three months ended March 31, 2016.

Note 8. Lease Pass-Through Financing Obligations

The Company has five ongoing transactions referred to as “lease pass-through arrangements.” Under lease pass-through arrangements, the Company leases solar energy systems to Fund investors under a master lease agreement, and these investors in turn are assigned the leases with customers. The Company receives all of the value attributable to the accelerated tax depreciation and some or all of the value attributable to the other incentives. The Company assigns to the Fund investors the value attributable to the ITC, and, for the duration of the master lease term, the long-term recurring customer payments. Given the assignment of the operating cash flows, these arrangements are accounted for as financing obligations. In addition, in one of the lease pass-through structures, the Company sold, as well as leased, solar energy systems to a Fund investor under a master purchase agreement. As the substantial risks and rewards in the underlying solar energy systems were retained by the Company, this arrangement was also accounted for as a financing obligation.

Under these lease pass-through arrangements, wholly owned subsidiaries of the Company finance the cost of solar energy systems with investors for an initial term of 20 – 25 years. The solar energy systems are subject to Customer Agreements with an initial term not exceeding 20 years. These solar energy systems are reported under the line item Solar energy systems, net in the consolidated balance sheets. As of March 31, 2016 and December 31, 2015, the cost of the solar energy systems placed in service under the lease pass-through arrangements was $484.7 million and $447.4

million, respectively. The accumulated depreciation related to these assets as of March 31, 2016 and December 31, 2015 was $37.7 million and $33.5 million, respectively.

As discussed in Note 6, Indebtedness, in connection with the pooling of assets related to the securitization transaction entered into in July 2015, an aggregate amount of $88.9 million of the lease pass-through financing obligation was repaid.

In September 2015, the Company entered into a new lease pass-through arrangement and in connection with this arrangement, the Company agreed to defer a portion (up to 25%) of the amounts required to be paid upfront under the arrangement through a loan between an indirectly wholly owned subsidiary of the Company and a subsidiary of the investor. The term loan agreement as amended is for an aggregate amount up to $25.0 million. The loan is collateralized by the related cash flows assigned to the investor. There is a legal right to offset the loan if an event of default has occurred. Therefore, the lease pass-through related to this arrangement is recorded net of the loan. As of March 31, 2016 and December 31, 2015, the loan amount was $24.4 million and $21.8 million, respectively.

Note 9. VIE Arrangements

The Company consolidated various VIEs at March 31, 2016 and December 31, 2015. The carrying amounts and classification of the VIEs' assets and liabilities included in the consolidated balance sheets are as follows (in thousands):

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$94,953	$44,407
Restricted cash	580	757
Accounts receivable, net	14,558	12,965
Prepaid expenses and other current assets	27	66
Total current assets	110,118	58,195
Solar energy systems, net	1,440,936	1,305,420
Total Assets	$1,551,054	$1,363,615
Liabilities		
Current liabilities		
Accounts payable	$10,857	$11,025
Distribution payable to noncontrolling interests and redeemable noncontrolling interests	7,318	8,063
Accrued expenses and other liabilities	264	175
Deferred revenue, current portion	23,013	21,344
Deferred grants, current portion	7,197	7,198
Long-term non-recourse debt, current portion	1,206	1,159

Total current liabilities	49,855	48,964
Deferred revenue, net of current portion	364,854	353,392
Deferred grants, net of current portion	106,704	108,528
Long-term non-recourse debt, net of current portion	$29,043	$29,580
Total liabilities	$550,456	$540,464

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

The Company holds certain variable interests in nonconsolidated VIEs established as a result of five lease pass-through Fund arrangements as further explained in Note 8, Lease Pass-Through Financing Obligations. The Company does not have material exposure to losses as a result of its involvement with the VIEs in excess of the amount of the financing liability recorded in the Company's consolidated financial statements. The Company is not considered the primary beneficiary of the VIEs.

Note 10. Redeemable Noncontrolling Interests and Equity

The changes in total stockholders' equity, redeemable noncontrolling interests and noncontrolling interests were as follows (in thousands):

	Redeemable Noncontrolling Interests	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance - January 1, 2016	$ 147,139	$ 554,069	$ 105,491	$ 659,560
Exercise of stock options	—	515	—	515
Issuance of restricted stock units, net of tax withholdings	—	(63)	—	(63)
Stock based compensation	—	3,848	—	3,848
Contributions from noncontrolling interests and redeemable noncontrolling interests	19,945	—	134,999	134,999
Distributions to noncontrolling interests and redeemable noncontrolling interests	(2,938)	—	(6,272)	(6,272)
Offering costs in connection with initial public offering	—	(437)	—	—
Net income (loss)	(26,097)	13,134	(64,840)	(51,706)
Other comprehensive loss, net of taxes	—			