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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35758

SolarCity Corporation
(Exact name of registrant as specified in its charter)

Delaware	**02-0781046**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer Identification No.)**
3055 Clearview Way San Mateo, California	**94402**
(Address of principal executive offices)	**(Zip Code)**

(650) 638-1028
(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 Exchange Act 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 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 ☒	Smaller reporting company ☐

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

The number of shares outstanding of the registrant's common stock as of May 1, 2013 was 75,349,025.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SolarCity Corporation
Condensed Consolidated Balance Sheets
(In Thousands, Except Share Par Values)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 127,294	$ 160,080
Restricted cash	3,154	7,516
Accounts receivable (net of allowances for doubtful accounts of $228 and $220 as of March 31, 2013 and December 31, 2012, respectively)	19,041	25,145
Rebates receivable	16,294	17,501
Inventories	77,681	87,903
Deferred income tax asset	5,377	5,770
Prepaid expenses and other current assets	26,304	11,502
Total current assets	275,145	315,417
Restricted cash	2,513	2,810
Solar energy systems, leased and to be leased – net	1,131,119	1,002,184
Property and equipment – net	19,793	18,635
Other assets	23,420	22,796
Total assets(1)	$ 1,451,990	$ 1,361,842
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 57,525	$ 62,986
Distributions payable to noncontrolling interests	19,435	12,028
Current portion of deferred U.S. Treasury grants income	13,684	11,376
Accrued and other current liabilities	36,395	52,334
Customer deposits	8,349	8,753
Current portion of deferred revenue	35,109	31,516
Current portion of long-term debt	14,211	20,613
Current portion of lease pass-through financing obligation	27,165	13,622
Current portion of sale-leaseback financing obligation	491	389
Total current liabilities	212,364	213,617
Deferred revenue, net of current portion	234,907	204,396
Long-term debt, net of current portion	96,224	83,533
Long-term deferred tax liability	5,400	5,790
Lease pass-through financing obligation, net of current portion	101,168	125,884
Sale-leaseback financing obligation, net of current portion	14,653	14,755
Deferred U.S. Treasury grants income, net of current portion	354,321	286,884
Other liabilities and deferred credits	118,560	112,056
Total liabilities(1)	1,137,597	1,046,915
Commitments and contingencies *(Note 11)*		
Stockholders' equity:		
Common stock, $0.0001 par value – authorized, 1,000,000 shares as of March 31, 2013 and December 31, 2012, respectively; issued and outstanding, 75,284 and 74,913 as of March 31, 2013 and December 31, 2012, respectively	7	7
Additional paid-in capital	329,941	325,705
Accumulated deficit	(142,386)	(111,392)
Total stockholders' equity	187,562	214,320
Noncontrolling interests in subsidiaries	126,831	100,607
Total equity	314,393	314,927
Total liabilities and equity	$ 1,451,990	$ 1,361,842

(1) The Company's consolidated assets as of March 31, 2013 and December 31, 2012 include $513,674 and $562,531, respectively, being assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. These assets include solar energy systems, leased and to be leased, net, of $480,618 and $530,230 as of March 31, 2013 and December 31, 2012, respectively; cash and cash equivalents of $11,235 and $16,065 as of March 31, 2013 and December 31, 2012, respectively; accounts receivable, net, of $2,431 and $1,681 as of March 31, 2013 and December 31, 2012, respectively; prepaid expenses and other assets of $8,546 and $2,603 as of March 31, 2013 and December 31, 2012, respectively; and rebates receivable of $8,876 and $8,985 as of March 31, 2013 and December 31, 2012, respectively. The Company's consolidated liabilities as of March 31, 2013 and December 31, 2012 included $27,463 and $19,853, respectively, being liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include distributions payable to noncontrolling interests of $19,435 and $12,028 as of March 31, 2013 and December 31, 2012, respectively; customer deposits of $4,870 and $4,162 as of March 31, 2013 and December 31, 2012, respectively; accounts payable of $0 and $9 as of March 31, 2013 and December 31, 2012, respectively; accrued and other payables of $442 and $938 as of March 31, 2013 and December 31, 2012, respectively; and bank borrowings of $2,716 and $2,716 as of March 31, 2013 and December 31, 2012, respectively.

See further description in Note 6, VIE Arrangements.

See accompanying notes.

SolarCity Corporation
Condensed Consolidated Statements of Operations
(In Thousands, Except Share and Per Share Amounts)
(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Revenue:		
Operating leases	$ 15,089	$ 8,139
Solar energy systems sales	14,899	16,702
Total revenue	29,988	24,841
Cost of revenue:		
Operating leases	5,503	2,582
Solar energy systems	11,789	12,125
Total cost of revenue	17,292	14,707
Gross profit	12,696	10,134
Operating expenses:		
Sales and marketing	17,879	16,131
General and administrative	16,618	8,562
Total operating expenses	34,497	24,693
Loss from operations	(21,801)	(14,559)
Interest expense, net	6,319	3,494
Other expense, net	140	8,974
Loss before income taxes	(28,260)	(27,027)
Income tax benefit (provision)	105	(35)
Net loss	(28,155)	(27,062)
Net income (loss) attributable to noncontrolling interests	2,839	(29,818)
Net (loss) income attributable to stockholders	$ (30,994)	$ 2,756
Net (loss) income attributable to common stockholders		
Basic	$ (30,994)	$ 453
Diluted	$ (30,994)	$ 656
Net (loss) income per share attributable to common stockholders		
Basic	$ (0.41)	$ 0.04
Diluted	$ (0.41)	$ 0.04
Weighted average shares used to compute net (loss) income per share attributable to common stockholders		
Basic	75,186,430	10,503,931
Diluted	75,186,430	17,076,717

See accompanying notes.

SolarCity Corporation
Condensed Consolidated Statements of Cash Flows
(In Thousands)
(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net loss	$ (28,155)	$ (27,062)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization net of amortization of deferred U.S. Treasury grant income	7,482	3,961
Interest on lease pass-through financing obligation	3,871	1,899
Stock-based compensation	3,722	2,091
Revaluation of convertible redeemable preferred stock warrants	—	8,588
Revaluation of preferred stock forward contract	—	350
Deferred income taxes	3	3
Reduction in lease pass-through financing obligation	(5,482)	(3,865)
Changes in operating assets and liabilities:		
Restricted cash	757	92
Accounts receivable	6,104	(25,150)
Rebates receivable	1,207	(2,941)
Inventories	10,222	(7,446)
Prepaid expenses and other current assets	(10,785)	2,223
Other assets	(624)	(2,374)
Accounts payable	(5,461)	(68,772)
Accrued and other liabilities	(7,663)	7,872
Customer deposits	(404)	(253)
Deferred revenue	34,104	33,899
Net cash provided by (used in) operating activities	8,898	(76,885)
Investing activities:		
Payments for the cost of solar energy systems, leased and to be leased	(138,221)	(83,465)
Purchase of property and equipment	(2,355)	(3,366)
Net cash used in investing activities	(140,576)	(86,831)
Financing activities:		
Investment fund financings and bank borrowings:		
Borrowings under long-term debt	15,435	57,570
Repayments of long-term debt	(9,729)	(427)
Borrowings under bank line of credit	—	19,418
Repayments of sale-leaseback financing obligation	—	(88)
Proceeds from lease pass-through financing obligation	4,631	59,155
Repayment of capital lease obligations	(833)	(5,481)
Proceeds from investment by noncontrolling interests in subsidiaries	74,578	3,469
Distributions paid to noncontrolling interest in a subsidiary	(43,786)	(37,829)
Proceeds from U.S. Treasury grants	58,082	26,871
Net cash provided by financing activities before equity issuances	98,378	122,658
Equity issuances:		
Proceeds from exercise of stock options	514	387
Proceeds from issuance of convertible redeemable preferred stock	—	80,868
Net cash provided by equity issuances	514	81,255
Net cash provided by financing activities	98,892	203,913
Net (decrease) increase in cash and cash equivalents	(32,786)	40,197
Cash and cash equivalents, beginning of period	160,080	50,471
Cash and cash equivalents, end of period	$ 127,294	$ 90,668
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 1,442	$ 727
Cash paid during the period for taxes	$ —	$ —

See accompanying notes.

SolarCity Corporation
Notes to Consolidated Financial Statements (Unaudited)

1. Organization

SolarCity Corporation, or "the Company", was incorporated as a Delaware corporation on June 21, 2006. The Company is engaged in the design, installation and sale or lease of solar energy systems to residential and commercial customers, or sale of electricity generated by solar energy systems to customers. The Company also offers energy efficiency solutions and services aimed at improving residential energy efficiency and lowering overall residential energy costs to its customers. The Company's headquarters are located in San Mateo, California.

2. Summary of Significant Accounting Policies and Procedures

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair statement of the results of operations for the interim periods covered and the consolidated financial position of the Company at the date of the balance sheets. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 27, 2013. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2013, or any other future period.

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. In accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification Section 810, or ASC 810, *Consolidation*, the Company consolidates any variable interest entity, or VIE, of which it is the primary beneficiary. 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, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company does not consolidate a VIE in which it has a majority ownership interest when the Company is not considered the primary beneficiary. The Company has determined that it is the primary beneficiary in a number of VIEs—refer to Note 6, VIE Arrangements. 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.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company regularly makes significant estimates and assumptions including, but not limited to, the estimates which affect the estimated selling price of undelivered elements for revenue recognition purposes, the collectibility of accounts receivable, the valuation of inventories, the estimated total costs for long-term contracts used as a basis of determining percentage of completion for such contracts, the estimated fair value and residual values of solar energy systems subject to leases, the useful lives of solar energy systems, property and equipment and intangible assets, the determination of accrued liabilities, accounting for business combinations, the valuation of stock-based compensation, and the determination of valuation allowances associated with deferred tax assets. 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.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

ASC 820 requires that the valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 establishes a three tier value hierarchy, which prioritizes inputs that may be used to measure fair value as follows:

- Level 1—Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices 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 assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of March 31, 2013 and December 31, 2012, there were no fair value measurements of assets and liabilities subsequent to initial recognition.

The Company's financial instruments include customer deposits, distributions payable to noncontrolling interests, borrowings under lines of credit, and long-term debt facilities. The carrying values of its financial instruments other than its long-term debt approximate their fair values due to the fact that they are short-term in nature at March 31, 2013 and December 31, 2012 (Level 1). The Company estimates the fair value of its long-term debt based upon rates currently offered for debt of similar maturities and terms (Level 3). The Company has estimated the fair value of its long-term debt to approximate its carrying value.

Warranties

The Company warrants its products for various periods against defects in material or installation workmanship. The Company generally provides a warranty on the generating and non-generating parts of the solar energy systems it sells of typically between five to twenty years. The manufacturer's warranty on the solar energy systems components, which is typically passed through to these customers, has a warranty period ranging from one to twenty-five years. The changes in accrued warranty balance, recorded as a component of accrued liabilities on the condensed consolidated balance sheets consisted of the following (in thousands):

	As of and for the Three Months Ended March 31, 2013
Balance – beginning of the period	$ 4,019
Provision charged to warranty expense	776
Less warranty claims	(84)
Balance – end of the period	$ 4,711

Solar Energy Systems Performance Guarantees

The Company guarantees certain specified minimum solar energy production output for systems leased to customers. The Company monitors the solar energy systems to ensure that these outputs are being achieved. The Company evaluates if any amounts are due to its customers. As of March 31, 2013, the Company had recorded liabilities of $0.9 million, as accrued and other current liabilities in the condensed consolidated financial statements relating to these guarantees based on the Company's assessment of its exposure.

Deferred U.S. Treasury Grant Income

The Company is eligible for U.S. Treasury grants received or receivable on eligible property as defined under Section 1603 of the American Recovery and Reinvestment Act of 2009, as amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of December 2010, which includes solar energy system installations, upon approval by the U.S. Treasury Department. For solar energy systems under lease pass-through arrangements the Company reduces the financing obligation and records deferred income for the U.S. Treasury grants which are paid directly to the investors upon receipt of the grants by the investors. The benefit of the U.S. Treasury grants is recorded as deferred income and is amortized on a straight-line basis over the estimated useful lives of the related solar energy systems of 30 years. The amortization of the deferred income is recorded as a reduction to depreciation expense which is a component of the cost of revenue of operating leases in the condensed consolidated statement of operations. A catch up adjustment is recorded in the period in which the grant is approved by the U.S. Treasury Department or received by lease pass-through investors to recognize the portion of the grant that matches proportionally the amortization for the period between the date of placement in service of the solar energy systems and approval by the U.S. Treasury Department or receipt by lease pass-through investors of the associated grant. The changes in deferred U.S. Treasury grant income during the three month period ended March 31, 2013 were as follows (in thousands):

Balance as of December 31, 2012	$ 298,260
U.S. Treasury grants received and receivable by the company	63,039
U.S. Treasury grants received by investors under lease pass-through arrangements	10,290
Amortized during the period as a credit to depreciation expense	(3,584)
Balance as of March 31, 2013	$ 368,005

Of the balance outstanding as of March 31, 2013 $354.3 million are presented as noncurrent deferred U.S. Treasury grants income in the condensed consolidated balance sheets.

Deferred Investment Tax Credits Revenue

The Company's solar energy systems are eligible for investment tax credits, or ITCs, that accrue to eligible property under the Internal Revenue Code. The Company is able to monetize these ITCs to investors who can utilize them in return for cash payments made through various arrangements formed by the Company. The Company considers the monetization of ITCs to constitute one of the key elements of realizing the value associated with solar energy systems. The Company therefore views the proceeds from the monetization of ITCs to be a component of revenue generated from the solar energy systems.

For lease pass-through structures, the Company monetizes the ITCs by assigning the ITCs associated with the systems leased to the investor. In addition, future customer lease payments are assigned to the investors in return for a cash consideration. The Company allocates a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs. The estimated fair value of the ITCs is determined by discounting the estimated cash flows impact of the ITCs using an appropriate discount rate that reflects a market interest rate.

The Company guarantees its fund investors that in the event of a subsequent recapture of the ITCs by the taxing authority due to the Company's noncompliance with the applicable ITC guidelines, the Company will compensate the investor for any recaptured credits. The Company has concluded that the likelihood of a recapture event is remote and consequently has not recorded any liability in the condensed consolidated financial statements for any potential recapture exposure. The amount allocated to the ITCs is initially recorded as deferred revenue on the condensed consolidated balance sheet and is recognized in the condensed consolidated statement of operations as a component of revenue over the five year period that the solar energy systems have to be in service to earn the credits that commences on the date that the associated solar energy system is placed in service.

The balance of deferred investment tax credits revenue, which is included as part of deferred revenue in the condensed consolidated balance sheet, as of March 31, 2013 and December 31, 2012 was $16.8 million and $0, respectively.

Comprehensive Income (Loss)

The Company accounts for comprehensive income (loss) in accordance with ASC 220, *Comprehensive Income*. Under ASC 220, the Company is required to report comprehensive income (loss), which includes the Company's net loss, as well as other comprehensive income (loss). There were no differences between comprehensive loss as defined by ASC 220 and net loss as reported in the Company's accompanying condensed consolidated statements of operations for the periods presented.

Segment Information

Operating segments are defined as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the executive team, comprising the chief executive officer, the chief operating officer, chief revenue officer and the chief financial officer. Based on the financial information presented to and reviewed by the chief operating decision maker in deciding how to allocate the resources and in assessing the performance of the Company, the Company has determined that it has a single operating and reporting segment, solar energy and energy efficiency products and services. The Company's principal operations, revenue and decision-making functions are located in the United States.

Basic and Diluted Net Income (Loss) Per Share

The Company's basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Prior to the Company's initial public offering of its common stock, the Company's convertible redeemable preferred stock was entitled to receive dividends of up to $0.01 per share when and if dividends are declared on the common stock and thereafter participate pro rata on an as converted basis with the common stock holders on any distributions to common stockholders. They were therefore participating securities. As a result, the Company calculates the net income (loss) per share using the two-class method. Accordingly, the net income (loss) attributable to common stockholders is derived from the net income (loss) for the period and, in periods in which the Company has net income attributable to common stockholders, an adjustment is made for the noncumulative dividends and allocations of earnings to participating securities based on their outstanding shareholder rights. Under the two-class method, the net loss attributable to common stockholders is not allocated to the convertible redeemable preferred stock as the convertible redeemable preferred stock did not have a contractual obligation to share in the Company's losses.

The diluted net income (loss) per share attributable to common stockholders is computed by giving effect to all potential common stock equivalents outstanding for the period determined using the treasury stock method or the as-if converted method as applicable. In periods when the Company incurred a net loss attributable to common stockholders, convertible redeemable preferred stock, stock options, restricted stock units, warrants to purchase common stock, and warrants to purchase convertible redeemable preferred stock were considered to be common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Recently Issued Accounting Standard

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02), to require reporting of the impact of significant reclassifications out of accumulated other comprehensive income or loss on the line items on the statement of operations, if a reclassification is required in its entirety in one reporting period. The ASU is effective for interim and annual periods beginning after December 15, 2012. The adoption of the ASU did not have a significant impact on the Company's condensed consolidated financial statements.

3. Balance Sheet Components

	March 31, 2013	December 31, 2012
Inventories:		
Raw materials	$ 62,982	$ 69,726
Work in progress	14,699	18,177
Total	$ 77,681	$ 87,903
Solar Energy Systems, Leased and To Be Leased—Net:		
Solar energy systems leased to customers (1)	$ 1,027,495	$ 895,020
Initial direct costs related to solar energy systems leased to customers	62,613	54,095
	1,090,108	949,115
Less accumulated depreciation and amortization	(52,308)	(43,024)
	1,037,800	906,091
Solar energy systems under construction	44,244	43,747
Solar energy systems to be leased to customers	49,075	52,346
Solar energy systems, leased and to be leased—net	$ 1,131,119	$1,002,184

(1) Included under solar energy systems leased to customers as of March 31, 2013 and December 31, 2012 was $66.4 million and $66.4 million, respectively, related to capital leased assets, with an accumulated depreciation of $3.2 million and $2.6 million, respectively.

Other Liabilities and deferred credits:		
Deferred gain on sale-leaseback transactions, net of current portion	$ 58,447	$ 59,243
Deferred rent expense	4,411	4,443
Capital lease obligation	28,243	28,688
Amounts received from investors for monetization of investment tax credits for systems not installed	18,748	18,111
Other noncurrent liabilities	8,711	1,571
Total	$118,560	$112,056

4. Long-Term Debt

Working Capital Financing

On May 26, 2010, a subsidiary of the Company entered into a financing agreement with a bank to obtain funding for working capital. The amount to be borrowed under the financing agreement is determined based on the estimated present value of expected future lease rentals to be generated by solar energy systems owned by the subsidiary and leased to customers, but shall not exceed $16.3 million. The working capital financing facility was funded in four tranches and was available for drawdown through March 31, 2011.

Through March 31, 2013, the Company borrowed an aggregate of $13.3 million under the working capital financing facility. Of the amounts borrowed, $10.8 million and $11.1 million were outstanding as of March 31, 2013 and December 31, 2012, respectively, of which $9.7 million and $10.0 million are included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of March 31, 2013 and December 31, 2012, respectively. Each tranche bears interest at an annual rate of 2% plus the swap rate applicable to the average life of the scheduled rent receipts for the tranche. For the amounts borrowed as of March 31, 2013, the interest rates ranged between 5.48% and 5.65%. The working capital financing facility is secured by substantially all the assets of the subsidiary and is nonrecourse to the general credit of the Company. The working capital financing facility matures on December 31, 2024. The Company was in compliance with all debt covenants as of March 31, 2013.

Vehicle and Other Loans

The Company has entered into various loan agreements consisting of vehicle and other loans with various financial institutions. The principal amounts of these vehicle and other loans mature between April 2013 and 2017. The Company was in compliance with all debt covenants as of March 31, 2013.

In January 2011, the Company entered into an additional $7.0 million term loan facility with a bank to finance the purchase of vehicles. This facility bears interest at an annual rate of 2.75% and is secured by the vehicles financed under this facility. This facility matures in January 2015. As of March 31, 2013, the Company had drawn $5.9 million of the available amount. Total other loans payable as of March 31, 2013 and December 31, 2012 amounted to $8.2 million and $7.7 million, respectively, with interest rates between 0.0% and 11.31%. Of the amounts outstanding, $3.2 million and $3.0 million were classified as short-term as of March 31, 2013 and December 31, 2012, respectively. The loans are secured by the financed property and equipment. The Company was in compliance with all debt covenants as of March 31, 2013.

Inventory Term Loan Facility

On March 8, 2012, the Company entered into a $58.5 million term loan facility with a syndicate of banks to finance the purchase of inventory. Interest on the borrowed funds bears interest at an annual rate of 3.75% plus LIBOR and is secured by the Company's inventory. As of March 31, 2013, the interest rate for this facility was 3.95%. This facility matures in August 2013. Through March 31, 2013, the Company had borrowed an aggregate of $58.5 million under this facility, from which the Company paid $1.5 million as fees. Of the amounts borrowed, $8.5 million was outstanding as of March 31, 2013 and is included in the condensed consolidated balance sheets under current portion of long-term debt. The Company was in compliance with all debt covenants as of March 31, 2013.

Term Loan

On February 8, 2013, a subsidiary of the Company entered into an agreement with a bank for a term loan of $10 million. The loan proceeds were used to finance the Company's acquisition of a fund investor's interests in three of the Company's financing funds. The loan bears interest at an annual rate equal to the lower of (i) the sum of LIBOR plus 3.25% and (ii) an interest rate cap of 6.50%. As of March 31, 2013, the interest rate for the loan was 3.45%. The loan is secured by the assets of certain of the Company's subsidiaries and is nonrecourse to the Company's other assets. The loan matures on January 31, 2015. Through March 31, 2013, the Company had borrowed an aggregate of $8.9 million of which, $6.9 million is included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of March 31, 2013. The Company was in compliance with all debt covenants as of March 31, 2013.

5. Borrowings Under Bank Lines of Credit

Credit Facility for SolarStrong

On November 21, 2011, a subsidiary of the Company and a bank entered into a credit agreement, whereby the bank would provide this subsidiary with a credit facility for up to $350 million. This facility would be used to partially fund the Company's SolarStrong initiative and will be non-recourse to the other assets of the Company. The SolarStrong initiative is a five-year plan to build solar power projects for privatized U.S. military housing communities across the country. The credit facility will be drawn down in tranches as defined in the credit facility agreement, with the interest rates to be determined as the amounts are drawn down. The credit facility will be collateralized by assets of the SolarStrong initiative. As of March 31, 2013, the Company's subsidiary had borrowed $2.7 million of which $2.6 million is included in the condensed consolidated balance sheets under long-term debt, net of current portion, as of March 31, 2013. The debt principal and interest are payable in semi-annual installments over a 20-year term ending in 2032 and bears interest rates between 6.78% and of 7.27%. The Company was in compliance with all debt covenants as of March 31, 2013.

Revolving Credit Facility

In September 2012, the Company entered into a revolving credit agreement with a syndicate of banks to obtain funding for working capital, letters of credit, and general corporate needs. This revolving credit agreement has a $75.0 million committed facility, of which $70.0 million was initially available pursuant to the facility's terms. The borrowed funds bear interest, which is payable monthly, at a rate of 3.875% plus LIBOR or, at the Company's option, at a rate equal to 2.875% plus the higher of the federal funds rate plus 0.5%, or Bank of America's published "prime rate," or LIBOR plus 1%. The fee for letters of credit is 3.875% per annum, and the fee for undrawn commitments is 0.375% per annum. The facility is secured by certain of the Company's machinery and equipment, accounts receivables, inventory, and other assets, excluding certain inventory pledged to other lenders. The facility matures and is payable in full in September 2014, at which date it may be extended by an additional year if the Company satisfies certain financial conditions. As of March 31, 2013, $72.4 million, net of lender fees, was borrowed and outstanding under this revolving credit agreement The outstanding balance is included under long-term debt. The Company was in compliance with all debt covenants as of March 31, 2013.

6. VIE Arrangements

Since 2008, wholly owned subsidiaries of the Company and fund investors formed and contributed cash or assets to various solar financing funds and entered into related agreements. As of March 31, 2013, the VIE investors had contributed $616.9 million into the VIEs.

The Company has determined it is the primary beneficiary of these VIEs by reference to the power and benefits criterion under ASC 810, *Consolidation*. The Company has considered the provisions within the contractual arrangements, which grant it power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems and associated customer leases to be sold or contributed to the VIE, preparation and approval of budgets. The Company considers that the rights granted to the other investors under the contractual arrangements are more protective in nature rather than participating rights.

As the primary beneficiary of these VIEs, the Company consolidates in its financial statements the financial position, results of operations, and cash flows of these funds, and all intercompany balances and transactions between the Company and the financing funds are eliminated in the condensed consolidated financial statements.

Under the related agreements, cash distributions of income and other receipts by the fund, net of agreed-upon expenses and estimated expenses, tax benefits and detriments of income and loss, and tax benefits of tax credits are allocated to the fund investor and Company's subsidiary as specified in contractual arrangements. Generally, the Company's subsidiary has the option to acquire the investor's equity interest at the higher of market value or an amount based upon a formula specified in the contractual agreements.

Upon the sale or liquidation of the fund, distributions would occur in the order and priority specified in the contractual agreements.

Pursuant to management services, maintenance, and warranty arrangements, the Company has been contracted to provide services such as warranty support, accounting, lease servicing, and performance reporting. In some instances the Company has guaranteed payments to the fund investors as specified in the contractual agreements. The funds' creditors have no recourse to the general credit of the Company or to that of other funds. As of March 31, 2013, the assets of one of the VIEs with a carrying value of $20.3 million have been pledged as collateral for the VIE's borrowings under the SolarStrong facility. None of the assets of the other VIEs have been pledged as collateral for the VIEs' obligations.

The Company has aggregated the financial information of the financing funds in the table below. The aggregate carrying value of these funds' assets and liabilities (after elimination of intercompany transactions and balances) in the Company's condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012, are as follows (in thousands):

	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 11,235	$ 16,065
Restricted cash, short term	210	167
Accounts receivable, net	2,431	1,681
Prepaid expenses and other assets	8,546	2,603
Rebates receivable	8,876	8,985
Total current assets	31,298	29,501
Solar energy systems, leased and to be leased, net	480,618	530,230
Deferred lease asset	1,758	2,800
Total assets	$513,674	$ 562,531
Liabilities		
Current liabilities		
Accounts payable	$ —	$ 9
Customer deposits	4,870	4,162
Distributions payable to noncontrolling interests	19,435	12,028
Current portion of deferred U.S. Treasury grants income	5,907	6,710
Current portion of deferred revenue	8,829	11,324
Accrued and other liabilities	442	938
Current portion of bank borrowings	131	131
Total current liabilities	39,614	35,302
Bank borrowings, net of current portion	2,585	2,585
Deferred revenue, net of current portion	136,577	160,093
Deferred U.S. Treasury grant income, net of current portion	162,632	184,470
Total liabilities	$341,408	$ 382,450

7. Equity

Changes in total stockholder's equity and noncontrolling interests in the three months ended March 31, 2013 was as follows:

	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2012	$ 214,320	$ 100,607	$314,927
Issuance of common stock upon exercise of stock options for cash	514	—	514
Contributions from noncontrolling interests	—	74,578	74,578
Stock-based compensation expense	3,722	—	3,722
Net (loss) income	(30,994)	2,839	(28,155)
Distributions to noncontrolling interests	—	(51,193)	(51,193)
Balance, March 31, 2013	$ 187,562	$ 126,831	$314,393

8. Stock Option Plans

Under the Company's 2007 Stock Plan, the Company may grant options to purchase or directly issue incentive stock options and nonstatutory stock options, respectively, of common stock to employees, directors, and consultants. Incentive stock options may be granted at a price per share not less than 100% of the fair market value at date of grant. If the incentive stock option is granted to a 10% stockholder, then the purchase or exercise price per share shall not be less than 110% of the fair market value per share of common stock on the grant date. Nonstatutory stock options may be granted at a price per share not less than 100% of the fair market value at date of grant. Options granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years.

In September 2012, the Company adopted a director compensation plan for future non-employee directors. Under the director compensation plan, each individual who joins the board of directors as a non-employee director following the adoption of the plan will receive an initial stock option grant to purchase 30,000 shares of common stock at the time of initial election or appointment and additional triennial stock option grants to purchase 15,000 shares of common stock, as well as an annual cash retainer of $15,000, all of which are subject to continued service on the board of directors. Such non-employee directors who serve on committees of the board of directors will receive various specified additional equity awards and cash retainers.

A summary of stock option activity for the three months ended March 31, 2013 is as follows (in thousands, except per share amounts):

	Common Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding – December 31, 2012	14,903	$ 4.80	7.67	$107,653
Granted (weighted-average fair value of $17.36)	586	17.36	—	—
Exercised	(371)	1.47	—	—
Canceled	(201)	8.01	—	—
Outstanding – March 31, 2013	14,917	$ 5.33	7.65	$202,138
Options vested and exercisable – March 31, 2013	7,871	$ 3.13	6.94	$123,994
Options vested and expected to vest – March 31, 2013	13,986	$ 5.10	7.58	$192,795

The aggregate intrinsic value of options exercised during the three months ended March 31, 2013 and 2012, was (in thousands) $4,935 and $1,046, respectively. The grant date fair market value of options that vested for the three months ended March 31, 2013 and 2012 was (in thousands) $6,116 and $2,527, respectively.

As of March 31, 2013 there was approximately $32.4 million of total unrecognized stock-based compensation expense, net of estimated forfeitures related to nonvested stock options, which are expected to be recognized over the weighted average period of 2.55 years.

Under ASC 718, the Company estimates the fair value of stock options granted on each grant date using the Black-Scholes option valuation model and applies the straight-line method of expense attribution. The fair values were estimated on each grant date for the three months ended March 31, 2013 and 2012, with the following weighted-average assumptions:

	March 31,	
	2013	2012
Dividend yield	0%	0%
Annual risk-free rate of return	1.04%	1.15%
Expected volatility	96.4%	87.52%
Expected term (years)	6.39	6.08

The expected volatility was calculated based on the average historical volatilities of publicly traded peer companies, determined by the Company. The risk free interest rate used was based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the stock options to be valued. The expected dividend yield was zero, as the Company does not anticipate paying a dividend within the relevant time frame. The expected term has been estimated using the simplified method allowed under ASC 718.

As part of the requirements of ASC 718, the Company is required to estimate potential forfeitures of stock grants and adjust stock-based compensation expense accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of stock-based compensation expenses to be recognized in future periods.

The amount of stock-based compensation expense recognized during the three months ended March 31, 2013 and 2012 was (in thousands) $3,722 and $2,091, respectively. The Company capitalized costs of (in thousands) $1,196 and $573, for the three months ended March 31, 2013 and 2012, respectively, as a component of work-in-progress, within solar energy systems leased to customers and solar energy systems held for lease to customers.

This expense was included in cost of revenue and in operating expenses as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cost of revenue	$ 177	$ 48
Sales and marketing	590	194
General and administrative	1,759	1,276

9. Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based upon the difference between the condensed consolidated financial statement carrying amounts and the tax basis of assets and liabilities and are measured using the enacted tax rate expected to apply to taxable income in the years in which the differences are expected to be reversed.

The income tax expense for the three months ended March 31, 2013 and 2012 were determined based on the Company's estimated consolidated effective income tax rates of negative 0.37% and 0.13%, respectively. The differences between the estimated consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to a valuation allowance and the current amortization of the prepaid income taxes due to inter-company sales held within the consolidated group.

As part of the assets monetization strategy, the Company has agreements to sell solar energy systems to the solar financing fund joint ventures. The gain on the sale of the assets has been eliminated in the condensed consolidated financial statements. These transactions are treated as inter-company sales and as such, tax is not recognized on the sale until the Company no longer benefits from the underlying asset. Since the systems remain within the consolidated group, the tax expense incurred related to these sales is being deferred and amortized over the estimated useful life of the underlying systems which has been estimated to be 30 years. The deferral of the tax expense results in recording of a prepaid tax expense that is included in the condensed consolidated balance sheets as other assets. As of March 31, 2013 and December 31, 2012, the Company recorded a long-term prepaid tax expense of $2.0 million and $2.0 million, respectively, net of amortization. The amortization of the prepaid tax expense in each period makes up the major component of the tax expense.

Uncertain Tax Positions

The Company is subject to taxation and files income tax returns in the U.S., various state, local, and foreign jurisdictions. Due to the Company's net losses, substantially all of its federal, state, local, and foreign income tax returns since inception are still subject to audit.

10. Related Party Transactions

The Company's operations for the three months ended March 31, 2013 and 2012 included the following related party transactions (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net Revenue, Systems:		
Solar energy systems sales to related parties	$ 17	$ 125

Related party balances as of March 31, 2013 and December 31, 2012 comprised of (in thousands):

	March 31, 2013	December 31, 2012
Due from a related party (included in accounts receivable)	$ 664	$ 932

11. Commitments and Contingencies

Noncancelable Operating Leases

The Company leases office and warehouse facilities under noncancelable operating leases primarily for its United States based warehouse locations. In addition, the Company leases equipment under noncancelable operating leases.

Indemnification and Guaranteed Returns

The Company is contractually committed to compensate certain fund investors for any losses that they may suffer in certain limited circumstances resulting from reductions in tax credits or U.S. Treasury grants due to changes in the tax bases submitted. The Company has recognized in the condensed consolidated financial statements as of March 31, 2013, including the amounts mentioned in Note 13, Subsequent Events, the potential exposure from this obligation based on all the information available, including guidelines from the U.S. Treasury Department on solar energy system valuations for purposes of U.S. Treasury grant payments. The Company believes that any other payments to its fund investors arising from this obligation are not probable based on the facts currently known.

The Company is contractually required to make payments to one fund investor to ensure the fund investor achieves a specified minimum internal rate of return. The fund investor has already received a significant portion of the projected economic benefits from U.S. Treasury grant distributions and tax depreciation benefits. The contractual provisions of this financing fund state that the financing fund has an indefinite term unless the members agree to dissolve the financing fund. Based on the Company's current financial projections regarding the amount and timing of future distributions to the fund investor, the Company does not expect to make any payments as a result of this guarantee and has not accrued any liabilities related to this guarantee. The amount of potential future payments under this guarantee is dependent on the amount and timing of future distributions to the fund investor and future tax benefits that accrue to the fund investor. Due to uncertainties surrounding estimating the amounts of these factors, the Company is unable to estimate the maximum potential payments under this guarantee. As of March 31, 2013, the fund investor had achieved its annual minimum internal rate of return as determined in accordance with the contractual provisions of the financing fund.

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

The following table sets for the computation of the Company's basic and diluted net income (loss) per share during the three months ended March 31, 2013 and 2012 (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2013	2012
Net (loss) income attributable to stockholders	$ (30,994)	$ 2,756
Noncumulative dividends on convertible redeemable preferred stock(1)	—	(433)
Undistributed earnings allocated to convertible redeemable preferred stockholders(2)	—	(1,870)
Net (loss) income attributable to common stockholders, basic	$ (30,994)	$ 453
Adjustment to undistributed earnings allocated to convertible redeemable preferred stockholders(3)	—	203
Net (loss) income attributable to common stockholders, diluted	$ (30,994)	$ 656
Weighted average shares used to compute net (loss) income per share attributable to common stockholders, basic	75,186,430	10,503,931
Dilutive effect of common stock options	—	6,572,786
Weighted average shares used to compute net (loss) income per share attributable to common stockholders, diluted	75,186,430	17,076,717
Net (loss) income per share attributable to common stockholders, basic	$ (0.41)	$ 0.04
Net (loss) income per share attributable to common stockholders, diluted	$ (0.41)	$ 0.04

(1) Noncumulative dividends payable on convertible redeemable preferred stock represents a $0.01 noncumulative preferred dividend that would be payable to convertible redeemable preferred stockholders prior to any other allocations to preferred and common stockholders if all the earnings for each period were distributed.

(2) Undistributed earnings allocated to convertible redeemable preferred stockholders represents the share of available undistributed earnings as adjusted for noncumulative preferred dividends that would be allocated to convertible redeemable preferred stockholders on an as-converted basis.

(3) Adjustment to undistributed earnings allocated to convertible redeemable preferred stockholders represents the impact of reallocation of undistributed earnings allocated to convertible redeemable preferred stockholders, as described in (2) above, to reflect the potential impact of dilutive securities.

The following outstanding shares of common stock equivalents were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been antidilutive:

	Three Months Ended March 31,	
	2013	2012
Convertible redeemable preferred stock	—	45,280,032
Preferred stock warrants and common stock warrants	1,485,010	1,816,650
Common stock options	14,719,365	2,903,793
Restricted stock units	16,991	—

13. Subsequent Events

Financing Funds

In April 2013, the Company and a fund investor amended the contractual terms of an existing financing fund to increase the available funding by $75 million. In May 2013, the Company and a new fund investor formed a new financing fund into which the fund investor will contribute up to $100 million.

Warrant Exercise

On May 8, 2013, a fund investor exercised its warrants to purchase 1,485,010 shares of the Company's common stock for $8.0 million. As a result of the exercise, the fund investor holds greater than 1% of the Company's outstanding common stock.

U.S. Treasury Grant Adjustment

The Company and its fund investors claim U.S. Treasury grants in amounts based on the fair market value of its solar energy systems. Although the Company has obtained independent appraisals to support the fair market values it reports for claiming U.S. Treasury grants, the U.S. Treasury Department can review these fair market values. On April 5, 2013, the U.S. Treasury Department notified one of the Company's financing funds that it had established a new guideline fair market value of $3.50 per watt for commercial solar energy systems. Prior to this change, the Company had received U.S. Treasury grant amounts based on a fair market value of $4.75 per watt for its commercial solar energy systems. As a result, the Company is obligated to reimburse the fund investor for the shortfall in anticipated U.S. Treasury grants. The Company has estimated that if this new guideline fair market value is applied to all of its financing funds, then based on the amounts received from its fund investors as of March 31, 2013, the Company would be obligated to reimburse its fund investors $6.4 million. This amount is reflected in the condensed consolidated financial statements as of March 31, 2013.

Amendments to Contractual Provisions of a Financing Fund

In April 2013, the Company and an investor in one of its financing funds amended the contractual provisions of a specific fund to eliminate certain limitations on reallocations of tax income and loss items to the members' tax capital accounts. The terms of the amendment were finalized in April, 2013. The Company considers the events giving rise to this amendment to have occurred after the balance sheet date given all discussions were conducted and concluded after the balance sheet date. Accordingly, the Company has not recognized the impact of this amendment in its condensed consolidated financial statement as of March 31, 2013. Had the effect of the amendment been adopted in the financial statements as of March 31, 2013, the Company would have reported an additional income allocation to noncontrolling interests of $26.9 million, and a corresponding loss allocation to the Company stockholders in the condensed consolidated statement of operations.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes to those statements included elsewhere in this quarterly report on Form 10-Q and with our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 27, 2013. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this quarterly report on Form 10-Q.

Overview

We integrate the sales, engineering, installation, monitoring, maintenance and financing of our distributed solar energy systems with our energy efficiency products and services. This allows us to offer long-term energy solutions to residential, commercial and government customers. Our customers buy renewable energy from us for less than they currently pay for electricity from utilities with little to no up-front cost. Our long-term contractual arrangements typically generate recurring customer payments and enable our customers to have insight into their future electricity costs and to minimize their exposure to rising retail electricity rates. Our customer relationships also position us to continue to grow our business through energy efficiency products and services offerings including energy efficiency services, energy storage solutions and electric vehicle charging stations.

We offer our customers the option to either purchase and own solar energy systems or to purchase the energy that our solar energy systems produce through various financed arrangements. These financed arrangements include long-term contracts that we structure as leases and power purchase agreements. In both financed structures, we install our solar energy system at our customer's premises and charge the customer a monthly fee for the power that our system produces. In the lease structure, this monthly payment is fixed with a production guarantee. In the power purchase agreement structure, we charge customers a fee per kWh based on the amount of electricity the solar energy system actually produces. The leases and power purchase agreements are typically for 20 years, and generally when there is no upfront fee the specified fees are subject to annual escalations.

Our solar energy systems serve as a gateway for us to perform energy efficiency evaluations and facilitate energy efficiency upgrades for our residential customers. During an energy efficiency evaluation, we capture, catalog and analyze all of the energy loads in the home to specifically identify the most valuable and actionable solutions to lower energy cost. We then offer to facilitate the appropriate upgrades to improve the home's energy efficiency. We offer our energy efficiency evaluations and services to our solar energy systems customers and on a stand-alone basis.

Through the first quarter of 2013, we typically acted as a general contractor and performed energy efficiency upgrades for our customers following energy efficiency evaluations and recommendations. Our current plan is to implement a new sales approach of facilitating energy efficiency upgrades through trusted third-party vendors and to transition from performing these upgrades ourselves. We will continue to perform energy efficiency evaluations for our customers and to provide recommendations for upgrades to improve energy efficiency and home comfort. Once we complete these evaluations, we will offer to provide a list of preferred vendors to the customers and introduce the customers to the third-party vendors who will perform the upgrades. In exchange for providing the introduction to the customer, the preferred vendors will pay us a referral fee. By the end of the third quarter of 2013, our goal is to have fully transitioned to this new approach to our energy efficiency business.

Initially, we only offered our solar energy systems on an outright purchase basis. In mid-2008, we began offering leases and power purchase agreements. Our ability to offer leases and power purchase agreements depends in part on our ability to finance the installation of the solar energy systems by monetizing the resulting customer receivables and related investment tax credits, accelerated tax depreciation and other incentives. Currently, the majority of our residential energy customers enter into leasing arrangements, and the majority of our commercial customers and government organizations enter into power purchase agreements. We expect customers to continue to favor leases and power purchase agreements.

We compete mainly with the retail electricity rate charged by the utilities in the markets we serve, and our strategy is to price the energy we sell below that rate. 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 utility. The price we charge also depends on customer price sensitivity, the need to offer a compelling financial benefit and the price other solar energy companies charge in the region. Our commercial rates in a given region are also typically lower than our residential rates in that region because utilities' commercial retail rates are generally lower than their residential retail rates.

We generally recognize revenue from solar energy systems sold to our customers when we install the solar energy system and it passes inspection by the utility or the authority having jurisdiction. We account for our leases and power purchase agreements as operating leases. We recognize the revenue these arrangements generate on a straight-line basis over the term for leases, and as we generate and deliver energy for power purchase agreements. We recognize revenue from our energy efficiency business when we complete the services. Substantially all of our revenue is attributable to customers located in the United States.

In the first quarter of 2013, we began monetizing certain government incentives in the form of investment tax credits, or ITCs, under lease pass-through structures by assigning the credits to investors in exchange for upfront cash payments. We initially record the amounts we receive from the investors for the ITCs as deferred revenue, which is subsequently recognized as revenue over a five-year period. As the U.S. Department of Treasury Section 1603 grant program winds down, we expect to increasingly place in service solar energy systems under the ITCs program.

The amount of operating lease revenue that we recognize in a given period is dependent in part on the amount of energy generated by solar energy systems under power purchase agreements and by systems with energy output performance incentives, which in turn are dependent in part on the amount of sunlight. As a result, operating lease revenue has in the past been impacted by seasonally shorter daylight hours in winter months. As the relative percentage of our revenue attributable to power purchase agreements or performance-based incentives increases, this seasonality may become more significant.

Various state and local agencies offer incentive rebates for the installation and operation of solar energy systems. For solar energy systems we sell, we typically have the customer assign the incentive rebate to us. We record the incentive rebates as a component of proceeds from the system sale. For incentive rebates associated with solar energy systems under leases or power purchase agreements, we initially record the rebate as deferred revenue and recognize the deferred revenue as revenue over the term of the lease or power purchase agreement.

Component materials, third-party appliances, and direct labor comprise the substantial majority of the costs of our solar energy systems and energy efficiency products and services. Under U.S. generally accepted accounting principles, or GAAP, the cost of revenue from our leases and power purchase agreements are primarily comprised of the depreciation of the cost of the solar energy systems, which are depreciated over the estimated useful life of 30 years, and the amortization of initial direct costs, which are amortized over the term of the lease or power purchase agreement, which is typically 20 years.

Our outstanding common stock warrants are classified as a component of additional paid-in capital on our condensed consolidated balance sheet and, accordingly, are not subject to remeasurement to fair value at each reporting date.

We have structured different types of financing funds to implement our asset monetization strategy. One such structure is a joint venture structure where we and our fund investors both contribute funds or assets into the joint venture. Under GAAP, we are required to present the impact of a hypothetical liquidation of these joint ventures on our condensed consolidated statement of operations. Therefore, after we determine our consolidated net income (loss) for a given period, we are required to allocate a portion of our consolidated net income (loss) to the fund investors in our joint ventures (referred to as the "noncontrolling interests" in our condensed consolidated financial statements) and allocate the remainder of the consolidated net income (loss) to our stockholders. These income or loss allocations, reflected on our condensed consolidated statement of operations, can have a significant impact on our reported results of operations. For example, for the three months ended March 31, 2013 and 2012, our consolidated net loss was $28.2 million and $27.1 million, respectively. However, after applying the required allocations to arrive at the consolidated net loss attributable to our stockholders, the result was a loss of $31.0 million and income of $2.8 million for the three months ended March 31, 2013 and 2012, respectively.

Financing Funds

Our lease and power purchase agreements create investment tax credits, accelerated tax depreciation deductions and other incentives. Our operating strategy is to monetize these attributes or 'assets' to generate income. Through this monetization process, we are able to share the economic benefits generated by the solar energy system with our customers by lowering the price they pay for energy. Historically, we have monetized the assets created by substantially all of our leases and power purchase agreements via financing funds we have formed with fund investors. Depending on the structure of the fund, we may contribute or sell solar energy systems to the fund and assign certain of the tax attributes and other incentives associated with the solar energy systems to the investors and in return we receive upfront cash payments from investors.

We also enter into arrangements which allow us to borrow against the future recurring customer payments under the solar system leases and power purchase agreements. Through the financing funds, we are able to retain the residual value in leases and the solar energy systems themselves. We use the cash received from the investors to cover our operating and capital costs including the variable and fixed costs associated with installing the related solar energy systems. Because these recurring customer payments are from individuals or commercial businesses with high credit scores, and because electricity is a necessity, our fund investors perceive these as high-quality assets with a relatively low loss rate. We invest any excess cash in the growth of our business.

Joint Ventures. Under joint venture structures, we and our fund investors contribute funds into a joint venture. Then, the joint venture acquires solar energy systems from us and leases the solar energy systems to customers. Prior to the fund investor receiving its contractual rate of return or for a time period specified in the contractual arrangements, the fund investors receive substantially all of the value attributable to the long-term recurring customer payments, investment tax credits, accelerated tax depreciation and, in some cases, other incentives. After the fund investor receives its contractual rate of return or after the specified time period, we receive substantially all of the value attributable to the long-term recurring customer payments and the other incentives.

We have determined that we are the primary beneficiary in these joint venture structures. Accordingly, we consolidate the assets and liabilities and operating results of these joint ventures, including the solar energy systems and operating lease revenue, in our condensed consolidated financial statements. We recognize the fund investors' share of the net assets of the joint ventures as noncontrolling interests in subsidiaries in our condensed consolidated balance sheet. We recognize the amounts that are contractually payable to these investors in each period as distributions to noncontrolling interests in our condensed consolidated statement of equity. Our condensed consolidated statement of cash flows reflects cash received from these fund investors as proceeds from investments by noncontrolling interests in subsidiaries. Our condensed consolidated statement of cash flows also reflects cash paid to these fund investors as distributions paid to noncontrolling interests in subsidiaries. We reflect any unpaid distributions to these fund investors as distributions payable to noncontrolling interests in subsidiaries in our condensed consolidated balance sheet.

Lease Pass-Through. Under lease pass-through structures, we lease solar energy systems to fund investors under a master lease agreement, and these investors in turn sublease the solar energy systems to customers. We receive all of the value attributable to the accelerated tax depreciation and some or all of the value attributable to the other incentives. We assign to the fund investors the value attributable to the investment tax credits and, for the duration of the master lease term, the long-term recurring customer payments. The investors typically make significant upfront cash payments which we classify and allocate between the right to the investment tax credits, which is a monetization activity, where applicable, and the future customer lease payments and other benefits assigned to the investor, which are recorded as a financing obligation. After the master lease term expires we receive the customer payments, if any. We record the solar energy systems on our condensed consolidated balance sheet as a component of solar energy systems, leased and to be leased—net. We record the amounts allocated to the investment tax credits as deferred revenue on our condensed consolidated balance sheet as the associated assets are placed in service. We then recognize the deferred revenue in the condensed consolidated statement of operations as revenue over five years, which is the period over which the assets have to be in service to earn the investment tax credits in full. We record the amount allocated to the customer payments as lease pass-through financing obligations on our condensed consolidated balance sheet and subsequently reduce these obligations by the amounts received by the fund investors from U.S. Treasury Department grants, customer payments and the associated incentive rebates. We in turn recognize the incentive rebates and customer payments as revenue over the customer lease term and amortize U.S. Treasury Department grants as a reduction to depreciation of the associated solar energy systems over the estimated life of these systems.

Sale-Leaseback. Under sale-leaseback structures, we generate cash through the sale of solar energy systems to our fund investors, and we then lease these systems back from the investors and sublease them to our customers. For the duration of the lease term, we may, for some of the structures, receive the value attributable to the incentives and the long-term recurring customer payments, and we make leaseback payments to the fund investors. The fund investors receive the customer payments after the lease term. They also receive the value attributable to the investment tax credits, accelerated depreciation and other incentives. At the end of the lease term, we have an option to purchase the solar energy systems from the fund investors. Typically, our customers make monthly lease payments that we recognize as revenue over the term of the subleases on a straight-line basis. Depending on the design, size and construction of the individual systems and the leaseback terms, we may recognize a portion of the revenue from the sale of the systems or we may treat the cash received from the sale as financing received from the fund investors and reflect the cash received as a sale-leaseback financing obligation on our condensed consolidated balance sheet.

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.

Customers

We track the number of residential, commercial and government customers for whom we have installed or contracted to install a solar energy system, or performed or contracted to perform an energy efficiency evaluation or other energy efficiency services. We believe that the relationship we establish with building owners, together with the energy-related information we obtain about the buildings, position us to provide the owners with additional solutions to further lower their energy costs. Our total number of customers increased 14% to 57,416 as of March 31, 2013 from 50,532 as of December 31, 2012.

Energy Contracts

We define an energy contract as a residential, commercial or government lease or power purchase agreement pursuant to which consumers use or will use energy generated by a solar energy system that we have installed or are contracted to install. For landlord-tenant structures, such as the Davis-Monthan Air Force Base, in which we contract with the landlord or development company, we maintain a direct relationship with the individual tenants and include each residence as an individual contract. For commercial customers with multiple locations, each location is deemed an individual contract if we maintain a separate contract for that location. For example, we view each Walmart store as an individual contract as we maintain a contractual relationship with each individual store and have a direct relationship with each store manager. We track the number of energy contracts 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.

The following table sets forth our cumulative energy contracts as of the dates presented:

	March 31, 2013	December 31, 2012
Cumulative energy contracts	46,843	40,456

Megawatts Deployed and Cumulative Megawatts Deployed

We track the electricity-generating production capacity of our solar energy systems as measured in megawatts. Because the size of our solar energy systems varies greatly, we believe that tracking the aggregate megawatt production capacity of the systems is an indicator of the growth rate of our solar energy system business. We track the megawatts deployed in a given period as an indicator of asset growth in the period. We track cumulative megawatts deployed as of the end of a given period as an indicator of our historical growth and our future opportunity to provide customers with additional solutions to further lower their energy costs.

Megawatts deployed represents the aggregate megawatt production capacity of our solar energy systems that have had all required inspections completed during the applicable period. Cumulative megawatts deployed represents the aggregate megawatt production capacity of operating solar energy systems subject to leases and power purchase agreements and solar energy systems we have sold to customers. Until we have begun the design process, the customer may terminate these contracts with little or no penalty.

The following table sets forth the megawatt production capacity of solar energy systems we have deployed during the period presented and the cumulative megawatts deployed as of the end of each period presented:

	Three Months Ended March 31,	
	2013	2012
Megawatts deployed	46	41
Cumulative megawatts deployed	333	287

Nominal Contracted Payments

Our leases and power purchase agreements create long-term recurring customer payments. We use a portion of the value created by these contracts, which we refer to as "nominal contracted payments," together with the value attributable to investment tax credits, accelerated depreciation, solar renewable energy credits, performance-based incentives, state tax benefits and rebates to cover the fixed and variable costs associated with installing solar energy systems.

We track the nominal contracted payments of our leases and power purchase agreements entered into as of specified dates. Nominal contracted payments equal the sum of the cash payments that the customer is obligated to pay over the term of the agreement. When calculating nominal contracted payments, we only include those leases and power purchase agreements that have been signed. For a lease, we include the monthly fee and the upfront fee as set forth in the lease. As an example, the nominal contracted payments for a 20-year lease with monthly payments of $200 and an upfront payment of $5,000 is $53,000. For a power purchase agreement, we multiply the contract price per kWh by the estimated annual energy output of the associated solar energy system to determine the nominal contracted payments. The nominal contracted payments of a particular lease or power purchase agreement decline as the payments are received by us or a fund investor. Aggregate nominal contracted payments include leases and power purchase agreements that we have contributed to financing funds. Currently, fund investors have contractual rights to a portion of these nominal contracted payments.

Nominal contracted payments is a forward-looking number, and we use judgment in developing the assumptions used to calculate it. Those assumptions may not prove to be accurate over time. Underperformance of the solar energy systems, payment defaults by our customers, cancellation of signed contracts or other factors described under the heading "Risk Factors" could cause our actual results to differ materially from our calculation of nominal contracted payments.

The following table sets forth, with respect to our leases and power purchase agreements, the estimated aggregate nominal contracted payments remaining as of the dates presented:

	March 31, 2013	December 31, 2012
	(in thousands)	
Estimated aggregate nominal contracted payments remaining	$ 1,222,000	$ 1,109,000(1)

(1) Amount as of December 31, 2012 is presented as corrected from amount previously reported.

In addition to the nominal contracted payments, our leases and power purchase agreements provide us with a significant post-contract renewal opportunity. Because our solar energy systems have an estimated life of 30 years, they will continue to have a useful life after the 20-year term of the lease or power purchase agreement. At the end of the original contract term, we intend to offer our customers renewal contracts. The solar energy systems will already be installed on the customer's building, which will facilitate the customer's acceptance of our renewal offer and will result in limited additional costs to us.

Backlog

We define backlog as the aggregate megawatt capacity of our solar energy systems not yet deployed as of the date specified pursuant to energy contracts and contracts for solar energy system direct sales executed as of such date. Backlog includes contracts that our customers may seek to cancel, contracts that we may choose to deactivate due to customer inactivity and contracts that are subject to contingencies outside of our control or our customers' control. As a result, backlog is not necessarily an accurate indicator of our future business activity or financial results and is just one factor among many that we track in managing the growth of our business. As of May 8, 2013, our backlog was 195 MW.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates during the three months ended March 31, 2013 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2012 other than those associated with investment tax credits noted below:

Deferred Investment Tax Credits Revenue

Our solar energy systems are eligible for investment tax credits, or ITCs, that accrue to eligible property under the Internal Revenue Code. We are able to assign these ITCs to investors who can utilize them in return for cash payments made through various funding arrangements formed by us.

For lease pass-through structures, we monetize the ITCs by assigning the ITCs associated with the systems leased to the investor under the master lease agreement. In addition, future customer lease payments are assigned to the investors in return for a cash consideration. We allocate a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs. The estimated fair value of the ITCs is determined by discounting the estimated cash flows impacts of the ITCs using an appropriate discount rate that reflects a market interest rate.

We guarantee our fund investors that in the event of a subsequent recapture of the ITCs by the taxing authority due to our noncompliance with the applicable ITC guidelines we would compensate the investor for any recaptured credits. We have concluded that the likelihood of a recapture event is remote and consequently have not recorded any liability in the condensed consolidated financial statements for any potential recapture exposure. The amount allocated to the ITCs is initially recorded as deferred revenue on the condensed consolidated balance sheet and is subsequently recognized in the condensed consolidated statement of operations as revenue over the five year period over which the assets have to be in service to earn the tax credits in full that commences on the date that the associated solar energy system is placed in service.

Results of Operations

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands, except share and per share data)	
Revenue:		
Operating leases	$ 15,089	$ 8,139
Solar energy systems sales	14,899	16,702
Total revenue	29,988	24,841
Cost of revenue:		
Operating leases	5,503	2,582
Solar energy systems	11,789	12,125
Total cost of revenue	17,292	14,707
Gross profit	12,696	10,134
Operating expenses:		
Sales and marketing	17,879	16,131
General and administrative	16,618	8,562
Total operating expenses	34,497	24,693
Loss from operations	(21,801)	(14,559)
Interest expense, net	6,319	3,494
Other expenses, net	140	8,974
Loss before income taxes	(28,260)	(27,027)
Income tax benefit (provision)	105	(35)
Net loss	(28,155)	(27,062)
Net income (loss) attributable to noncontrolling interests	2,839	(29,818)
Net (loss) income attributable to stockholders	$ (30,994)	$ 2,756
Net (loss) income per share attributable to common stockholders:		
Basic	$ (0.41)	$ 0.04
Diluted	$ (0.41)	$ 0.04
Weighted average common shares outstanding:		
Basic	75,186,430	10,503,931
Diluted	75,186,430	17,076,717

Revenue

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2013	2012	$	%
Operating leases	$15,089	$ 8,139	$ 6,950	85%
Solar energy systems sales	14,899	16,702	(1,803)	(11)%
Total revenue	$29,988	$24,841	$ 5,147	21%

Total revenue increased by $5.1 million, or 21%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Operating leases revenue increased by $7.0 million, or 85%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase was attributable to an increased number of solar energy systems under leases and power purchase agreements that are in service, the aggregate of which increased by 147% for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This significant growth was attributable to our continued success in the installation and operation of solar energy systems under lease and power purchase agreements in new and existing markets. The rate growth in revenue was however lower than the rate of growth in solar energy systems deployed due to a higher percentage of systems under power purchase agreements, which generally generate lower revenues during the winter periods compared to leases which generate constant revenues over time. Operating leases revenue for the three months ended March 31, 2013 included $5.3 million attributable to rebates and incentives, representing an increase of $2.0 million compared to the three months ended March 31, 2012.

Revenue from sales of solar energy systems decreased by $1.8 million, or 11%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This decrease was primarily due to a $5.2 million decrease in revenue from long-term solar energy system sales contracts, a $3.7 million decrease in revenue from sales to a specific commercial customer, a $2.9 million decrease in large commercial solar energy system sales, and a $0.5 million decrease in residential solar energy system sales for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. These decreases partially resulted from a lower average sales price of solar energy systems sold due to a decrease in the cost of solar energy system components that in turn led to a downward impact on the competitive market price of solar energy systems sold. We expect that the continuing decline in the cost of solar energy system components will continue to similarly impact our average sales price. These decreases were offset in part by an $8.5 million increase in revenue from sales of solar energy systems to the government and a $1.8 million increase in revenue from sales of energy efficiency products and services, to $2.9 million from $1.1 million, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Cost of Revenue, Gross Profit and Gross Profit Margin

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2013	2012	$	%
Operating leases	$ 5,503	$ 2,582	$ 2,921	113%
Gross profit of operating leases	9,586	5,557	4,029	73%
Gross profit margin of operating lease revenue	64%	68%		
Solar energy systems	$11,789	$12,125	$ (336)	(3)%
Gross profit of solar energy systems	3,110	4,577	(1,467)	(32)%
Gross profit margin of solar energy systems	21%	27%		
Total cost of revenue	$17,292	$14,707	$ 2,585	18%
Total gross profit	12,696	10,134	2,562	25%
Total gross profit margin	42%	41%		

Cost of operating leases revenue increased by $2.9 million, or 113%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase was primarily due to an increase in the aggregate number of solar energy systems placed under operating leases that were interconnected and being depreciated.

Cost of sales of solar energy systems decreased by $0.3 million, or 3%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This decrease was due to decreased costs associated with the decline in sales of solar energy systems, offset in part by the declining cost of solar energy system components. The decrease in the gross profit margin from 27% to 21% was primarily due to lower margins on specific long term commercial projects delivered in the three-month period ended March 31, 2013.

Operating Expenses

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2013	2012	$	%
Sales and marketing expense	$17,879	$16,131	$1,748	11%
General and administrative expense	16,618	8,562	8,056	94%
Total operating expenses	$34,497	$24,693	$9,804	40%

Sales and marketing expense increased by $1.7 million, or 11%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase was due to the increase in the number of personnel allocated to sales and marketing departments from 421 as of March 31, 2012 to 728 as of March 31, 2013. As a result of this growth in headcount, payroll costs increased by $4.5 million for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase in payroll costs was partially offset by a $2.6 million decrease in broadcast advertising costs for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

General and administrative expense increased by $8.1 million, or 94%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase was due to the increase in the number of personnel allocated to general and administrative departments from 186 as of March 31, 2012 to 302 as of March 31, 2013. As a result of this growth in headcount, payroll costs increased by $3.0 million and facilities costs increased by $0.6 million for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. In addition, the larger number of financing funds contributed to an increase in legal, audit and professional fees of $3.9 million for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Other Income and Expenses

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2013	2012	$	%
Interest expense, net	$6,319	$ 3,494	$ 2,825	81%
Other expenses, net	140	8,974	(8,834)	(98)%
Total interest and other expenses, net	$6,459	$12,468	$(6,009)	(48)%

Interest expense, net, increased by $2.8 million, or 81%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. Interest expense, net, is comprised of imputed interest on financing obligations of $3.9 million and $2.1 million and interest on bank borrowings, net of interest income on cash balances, of $2.4 million and $1.4 million, each as of the three months ended March 31, 2013 and 2012, respectively. This increase was a result of higher balances of financing obligations and bank borrowings for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Other expenses, net, decreased by $8.8 million, or 98%, for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This decrease was primarily due to a change in value of the convertible redeemable preferred stock warrants as these warrants were converted to common stock warrants upon the closing of the Company's initial public offering of its common stock in December 2012.

Net Income (Loss) Attributable to Noncontrolling Interests

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2013	2012	$	%
Net income (loss) attributable to noncontrolling interests	$2,839	$(29,818)	$32,657	110%

The net income attributable to noncontrolling interests in the three months ended March 31, 2013 was $2.8 million compared to a loss of $29.8 million in the three months ended March 31, 2012. The higher loss allocation in the three months ended March 31, 2012 was mainly due to sales of assets with significant excess of fair value over costs to a fund which does not have a guarantee of minimum value leading to significant loss allocations to the investor. The net income allocation to the noncontrolling interests in the three months ended March 31, 2013 is mainly due to offsetting of income allocated to investors in funds that are now fully funded and losses allocated to investors in funds to which we are still currently tranching assets.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated cash flows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Net cash provided by (used in) operating activities	$ 8,898	$ (76,885)
Net cash used in investing activities	(140,576)	(86,831)
Net cash provided by financing activities	98,892	203,913
Net (decrease) increase in cash and cash equivalents	$ (32,786)	$ 40,197

We finance our operations, including the costs of acquisition and installation of solar energy systems, mainly through a variety of financing fund arrangements that we have formed with fund investors, credit facilities from banks, and cash generated from our operations. As of March 31, 2013, we had $569.6 million of available commitments from our fund investors, including a $347.2 million financing fund structured as a debt facility, that would be available through our asset monetization strategy.

While we had a net loss for the three months ended March 31, 2013, we believe that our existing cash and cash equivalents, funds available under a secured credit facility and funds available in our existing financing funds that can be drawn down through our asset monetization strategy will be sufficient to meet our cash requirements for at least the next twelve months.

Operating Activities

In the three months ended March 31, 2013, we generated $8.9 million in net cash from operations. This cash inflow primarily resulted from an increase in deferred revenue of $34.1 million relating to upfront lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments and deferred investment tax credits revenue, a decrease in inventories of $10.2 million, a decrease in accounts receivable of $6.1 million and a decrease in incentive rebates receivable of $1.2 million. This cash inflow was offset in part by an increase in prepaid expenses and other current assets of $10.8 million, a decrease in accrued and other liabilities of $7.7 million, a decrease in accounts payable of $5.5 million, and a net loss of $28.2 million, reduced by non-cash items such as depreciation and amortization of $7.5 million, stock-based compensation of $3.7 million and interest on lease pass-through obligations of $3.9 million and increased by a reduction in lease pass-through obligations of $5.5 million.

In the three months ended March 31, 2012, we utilized $76.9 million in net cash for operations. This cash outflow primarily resulted from a net loss of $27.1 million, reduced by non-cash items such as depreciation and amortization of $4.0 million, stock-based compensation of $2.1 million, interest on lease pass-through obligations of $1.9 million and changes in the fair values of mandatorily redeemable preferred stock warrants of $8.6 million and increased by a reduction in lease pass-through obligations of $3.9 million. This cash outflow also increased in part due to a decrease in accounts payable of $68.8 million as we paid our suppliers, an increase in accounts receivable of $25.2 million and an increase in inventories of $7.4 million. This cash outflow was offset in part by an increase in deferred revenue of $33.9 million related to lease payments received from customers and solar energy system incentive rebate payments received from various state and local governments and an increase in accrued and other liabilities of $7.9 million.

Investing Activities

Our investing activities consisted primarily of capital expenditures.

In the three months ended March 31, 2013, we used $140.6 million in investing activities. Of this amount, we used $138.2 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and $2.4 million on the acquisition of vehicles, office equipment, leasehold improvements and furniture.

In the three months ended March 31, 2012, we used $86.8 million in investing activities. Of this amount, we used $83.5 million on the design, acquisition and installation of solar energy systems under operating leases with our customers and $3.4 million on the acquisition of vehicles, office equipment, leasehold improvements and furniture.

Financing Activities

In the three months ended March 31, 2013, we generated $98.9 million from financing activities. We received $15.4 million, net of fees, from long-term debt. We repaid $9.7 million of long-term debt and $0.8 million of our capital lease obligation. We received an additional $58.1 million from U.S. Treasury grants associated with our solar energy systems that we had leased to customers. We also received $4.6 million from fund investors in our lease pass-through financing funds and $74.6 million from fund investors in our joint ventures. We paid distributions to fund investors of $43.8 million.

In the three months ended March 31, 2012, we generated $203.9 million from financing activities. We received $80.9 million, net of transaction costs, from the issuance of convertible redeemable preferred stock. We received an additional $57.6 million from long-term debt and $19.4 million from our revolving line of credit. We repaid $0.4 million of long-term debt. We received $26.9 million from U.S. Treasury grants associated with our solar energy systems that we had leased to customers. We also received $59.2 million from fund investors in our lease pass-through financing funds and $3.5 million from fund investors in our joint ventures. We paid distributions to fund investors of $37.8 million.

Secured Credit Agreements and Investment Fund Commitments

There have been no material changes to our secured credit agreements and investment fund commitments during the three months ended March 31, 2013 from those disclosed in our annual report on Form 10-K for the year ended December 31, 2012 other than as noted under Liquidity and Capital Resources section above and as noted below.

In February 2013, one of our subsidiaries entered into an agreement with a bank for a term loan of $10.0 million. The loan proceeds were used to finance our acquisition of a fund investor's interests in three of our financing funds. The loan bears interest at an annual rate equal to the lower of (i) the sum of LIBOR plus 3.25% and (ii) an interest rate cap of 6.50%. As of March 31, 2013, the interest rate for the loan was 3.45%. The loan is secured by the assets of certain of our subsidiaries and is nonrecourse to our other assets. The loan matures on January 31, 2015. As of March 31, 2013, we had $8.9 million outstanding under the loan and were in compliance with all debt covenants.

Off-Balance Sheet Arrangements

We include in our condensed consolidated financial statements all assets, liabilities and results of operations of financing fund arrangements that we have entered into. We have not entered into any other transactions that have generated unconsolidated entities, financial partnerships or special purpose entities. Accordingly, we do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations. Our primary exposures include changes in interest rates because certain borrowings bear interest at floating rates based on LIBOR rate plus a specified margin. We manage our interest rate risk by balancing our amount of fixed-rate and floating-rate debt. For fixed-rate debt, interest rate changes do not affect our earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and other operating expenses and reducing our funds available for capital investment, operations or other purposes. In addition, we must use a substantial portion of our cash flow to service debt, which may affect our ability to make future acquisitions or capital expenditures. A hypothetical 10% change in our interest rates would have changed interest incurred for the three months ended March 31, 2013 and 2012 by $0.2 million and $0.2 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

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 pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2013, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a 15(d) and 15d 15(d) of the Exchange Act that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in various legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement, commercial, employment, business practices and other claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand. See Part I, Item 3 of our annual report on Form 10-K for the year ended December 31, 2013 for a description of certain pending proceedings which did not materially change during the quarter ended March 31, 2013.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this quarterly report on Form 10-Q, including our condensed consolidated financial statements and related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to our Business

Existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our solar energy systems.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by 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 customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our customers' cost to use our systems and make them less desirable, thereby harming our business, prospects, financial condition and results of operations. In addition, depending on the region, electricity generated by solar energy systems competes most effectively with expensive peak-hour electricity from the electric 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 require us to lower the price of our solar energy systems to compete with the price of electricity from the electric grid.

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 products and services. For example, certain jurisdictions have proposed assessing fees on customers purchasing energy from solar energy systems or imposing a new charge that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. Any similar government or utility policies adopted in the future could reduce demand for our products and services and adversely impact our growth.

We rely on net metering and related policies to offer competitive pricing to our customers in some of our key markets.

Forty-three states and Washington, D.C. have a regulatory policy known as net energy metering, or net metering. Each of the states where we currently serve customers has adopted a net metering policy except for Texas, where certain individual utilities have adopted net metering or a policy similar to net metering. Net metering typically allows our customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system in excess of electric load that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Utilities operating in states without a net metering policy may receive solar electricity that is exported to the grid at times when there is no simultaneous energy demand by the customer to utilize the generation onsite without providing retail compensation to the customer for this generation. Our ability to sell solar energy systems or the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering in states that have implemented it, the failure to adopt a net metering policy where it currently is not in place or the imposition of new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the electricity they generate also may be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

Limits on net metering, interconnection of solar energy systems and other operational policies in key markets could limit the number of solar energy systems installed there. For example, California utilities are currently required to provide net metering to their customers until the total generating capacity of net metered systems exceeds 5% of the utilities' "aggregate customer peak demand." This cap on net metering in California was increased to 5% in 2010 as utilities neared the prior cap of 2.5%. If the current net metering caps in California, or other jurisdictions, are reached, future customers will be unable to recognize the current cost savings associated with net metering. We substantially rely on net metering when we establish competitive pricing for our prospective customers. The absence of net metering for new customers would greatly limit demand for our solar energy systems.

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

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to lower our cost of capital and to incent fund investors to invest in our funds. These incentives enable us to lower the price we charge customers for energy and for our solar energy systems. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. These reductions or terminations often occur without warning.

The federal government currently offers a 30% investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. This credit is due to adjust to 10% in 2017. Solar energy systems that began construction prior to the end of 2011 were eligible to receive a 30% federal cash grant paid by the U.S. Treasury Department under section 1603 of the "American Recovery and Reinvestment Act of 2009," or the U.S. Treasury grant, in lieu of the Federal ITC. Pursuant to the Budget Control Act of 2011, U.S. Treasury grants are subject to sequestration beginning in 2013. Specifically, U.S. Treasury grants made on or after March 1, 2013 through September 30, 2013 will be reduced by 8.7%, regardless of when the Treasury received the application. As a result, for all applications pending or to be submitted as of March 31, 2013, we expect to suffer grant shortfalls of approximately $10.4 million associated with our financing funds. The sequestration reduction rate is subject to change at the federal government's fiscal year end of September 30, 2013. In addition, 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, or eliminations or expirations of, 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 financing funds and our ability to offer attractive financing to prospective customers. For the quarter ended March 31, 2013, more than 98% of new customers chose to enter into financed lease or power purchase agreements rather than buying a solar energy system for cash.

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

Our leases and power purchase agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party 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. Reductions in, or eliminations of, this treatment of these third-party arrangements could reduce demand for our systems, adversely impact our access to capital and could cause us to increase the price we charge our customers for energy.

The Office of the Inspector General of the U.S. Department of Treasury has issued subpoenas to a number of significant participants in the rooftop solar energy installation industry, including us. The subpoena we received requires us to deliver certain documents in our possession relating to our participation in the U.S. Treasury grant program. These documents will be delivered to the Office of the Inspector General of the U.S. Department of Treasury, which is investigating the administration and implementation of the U.S. Treasury grant program.

In July 2012, we and other companies with significant market share, and other companies related to the solar industry, received subpoenas from the U.S. Department of Treasury's Office of the Inspector General to deliver certain documents in our respective possession. In particular, our subpoena requested, among other things, documents dated, created, revised or referred to since January 1, 2007 that relate to our applications for U.S. Treasury grants or communications with certain other solar development companies or certain firms that appraise solar energy property for U.S. Treasury grant application purposes. The Inspector General is working with the Civil Division of the U.S. Department of Justice to investigate the administration and implementation of the U.S. Treasury grant program, including possible misrepresentations concerning the fair market value of the solar power systems submitted for grant under that program made in grant applications by companies in the solar industry, including us. We intend to cooperate fully with the Inspector General and the Department of Justice. We are continuing to produce documents as requested by the Inspector General, and anticipate at least four months will be required to complete the gathering and production of such materials, and that the Inspector General will require at least another year to conclude its review of those materials.

We are not aware of, and have not been made aware of, any specific allegations of misconduct or misrepresentation by us or our officers, directors or employees, and no such assertions have been made by the Inspector General or the Department of Justice. However, if at the conclusion of the investigation the Inspector General concludes that misrepresentations were made, the Department of Justice could decide to bring a civil action to recover amounts it believes were improperly paid to us. If it were successful in asserting this action, we could then be required to pay damages and penalties for any funds received based on such misrepresentations (which, in turn, could require us to make indemnity payments to certain of our fund investors). Such consequences could have a material adverse effect on our business, liquidity, financial condition and prospects. Additionally, the period of time necessary to resolve the investigation is uncertain, and this matter could require significant management and financial resources that could otherwise be devoted to the operation of our business.

If the Internal Revenue Service or the U.S. Treasury Department makes additional determinations that the fair market value of our solar energy systems is materially lower than what we have claimed, we may have to pay significant amounts to our financing funds or to our fund investors and such determinations could have a material adverse effect on our business, financial condition and prospects.

We and our fund investors claim the Federal ITC or the U.S. Treasury grant in amounts based on the fair market value of our solar energy systems. We have obtained independent appraisals to support the fair market values we report for claiming Federal ITCs and U.S. Treasury grants. The Internal Revenue Service and the U.S. Treasury Department review these fair market values. With respect to U.S. Treasury grants, the U.S. Treasury Department reviews the reported fair market value in determining the amount initially awarded, and the Internal Revenue Service and the U.S. Treasury Department may also subsequently audit the fair market value and determine that amounts previously awarded must be repaid to the U.S. Treasury Department. Such audits of a small number of our financing funds are ongoing. With respect to Federal ITCs, the Internal Revenue Service may review the fair market value on audit and determine that the tax credits previously claimed must be reduced. If the fair market value is determined in either of these circumstances to be less than we reported, we may owe the fund or our fund investors an amount equal to this difference, plus any costs and expenses associated with a challenge to that valuation. We could also be subject to tax liabilities, including interest and penalties. As we previously disclosed in our Form 10-K dated March 27, 2013, from time to time the U.S. Treasury Department has determined in some instances to award us U.S. Treasury grants for our solar energy systems at a materially lower value than we had established in our appraisals and, as a result, we have been required to pay our fund investors a true-up payment or contribute additional assets to the associated financing funds. Subsequent to our 10-K filing, the U.S. Treasury Department has made similar determinations with respect to additional grant applications. As a result of these actions by the U.S. Treasury Department, based on the number of such systems that we have placed in service and that we plan to place in service using funds contributed by investors to our financing funds currently, we estimate that we would be obligated to pay the investors approximately $15.6 million to compensate them for the anticipated shortfall in grants. In response to such shortfalls, two of our financing funds recently filed a lawsuit in the United States Court of Federal Claims to recover the difference between the U.S. Treasury grants they sought and the amounts Treasury paid; to the extent that these lawsuits are successful any recovery would be used to repay us for amounts we previously reimbursed those funds. Our investors are contributing to our financing funds at the amounts the U.S. Treasury Department has most recently awarded on similarly situated energy systems to reduce or eliminate the need for the company to subsequently pay those investors true-up payments or contribute additional assets to the associated financing funds.

If the Internal Revenue Service or the U.S. Treasury Department further disagrees now or in the future, as a result of any pending or future audit, the outcome of the Department of Treasury Inspector General investigation, the change in guidelines or otherwise, with the fair market value of more of our solar energy systems that we have constructed or that we construct in the future, including any systems for which grants have already been paid, and determines we have claimed too high of a fair market value, it could have a material adverse effect on our business, financial condition and prospects. For example, a hypothetical five percent downward adjustment in the fair market value in the approximately $449.6 million of U.S. Department of Treasury grant applications that have been awarded from the beginning of the U.S. Treasury grant program through March 31, 2013 would obligate us to repay approximately $22.5 million to our fund investors.

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

Our solar energy systems have been eligible for Federal ITCs or U.S. Treasury grants, as well as 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. With the lapse of the U.S. Treasury grant program, we anticipate that our reliance on these tax-advantaged financing structures will increase substantially. If, for any reason, we were unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain solar energy systems for new 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 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.

Under current law, the Federal ITC will be reduced from approximately 30% of the cost of the solar energy systems to approximately 10% for solar energy systems placed in service after December 31, 2016. In addition, U.S. Treasury grants are no longer available for new solar energy systems. Moreover, potential fund investors must remain satisfied that the structures we offer make the tax benefits associated with solar energy systems available to these investors, which depends both on the investors' assessment of the tax law and the absence of any unfavorable interpretations of that law. Changes in existing law and interpretations by the Internal Revenue Service 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 be available to us. 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, 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 and results of operations.

We need to enter into additional substantial financing arrangements to facilitate our customers' access to our solar energy systems, and if this financing is not available to us on acceptable terms, if and 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 fund investors to help finance the deployment of our residential and commercial solar energy systems. In particular, our strategy is to seek to reduce the cost of capital through these arrangements to improve our margins or to offset future reductions in government incentives and to maintain the price competitiveness of our solar energy systems. If we are unable to establish new financing funds when needed, or upon desirable terms, to enable our customers' access to our solar energy systems with little or no upfront cost, 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 and results of operations. To date we have raised capital sufficient to finance installation of our customers' solar energy systems from a number of financial institutions and other large companies. The contract terms in certain of our financing fund documents condition 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 in one case on us. If we do not satisfy such condition due to events related to our business or a specific financing fund or developments in our industry (including related to the Department of Treasury Inspector General investigation) or otherwise, and as a result we are unable to draw on existing commitments, it could have a material adverse effect on our business, liquidity, financial condition and prospects. If any of the financial institutions or large companies that currently invest in our financing funds decide not to invest in future financing funds to finance our solar energy systems due to general market conditions, concerns about our business or prospects, the pendency of the Department of Treasury Inspector General investigation or any other reason, 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 invest in our financing funds and negotiate new financing terms.

In the past, we encountered challenges raising new funds, which caused us to delay deployment of a substantial number of solar energy systems for which we had signed leases or power purchase agreements with customers. For example, in late 2008 and early 2009, as a result of the state of the capital markets, our ability to finance the installation of solar energy systems was limited and resulted in a significant backlog of signed sales orders for solar energy systems. 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. If we experience higher customer default rates than we currently experience in our existing financing funds or we lower the credit rating requirement for new customers, this could make it more difficult or costly to attract future financing. Solar energy has yet to achieve broad market acceptance and depends on continued support in the form of performance-based incentives, rebates, tax credits and other incentives from federal, state and foreign governments. If this support diminishes, our ability to obtain external financing on acceptable terms, or at all, could be materially adversely affected. In addition, we face competition for these investor funds. 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 on less favorable terms than our competitors. Our current financing sources may be inadequate to support the anticipated growth in our business plans. Our inability to secure financing could lead to cancelled projects and could impair our ability to accept new projects and customers. In addition, our borrowing costs could increase, which would have a material adverse effect on our business, financial condition and results of operations.

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

We believe that a customer's decision to buy renewable energy from us is primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources would harm our ability to offer competitive pricing and could harm our business. The price of electricity from utilities could decrease as a result of:

- the construction of a significant number of new power generation plants, including nuclear, coal, natural gas or renewable energy technologies;
- the construction of additional electric transmission and distribution lines;
- a reduction in the price of natural gas as a result of new drilling techniques or a relaxation of associated regulatory standards;
- the energy conservation technologies and public initiatives to reduce electricity consumption; and
- development of new renewable energy technologies that provide less expensive energy.

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

A material drop in the retail price of utility-generated electricity would particularly adversely impact our ability to attract commercial customers.

Commercial customers comprise a significant and growing portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for energy from utilities than residential customers. Because the price we are able to charge commercial customers is only slightly lower than their current retail rate, any decline in the retail rate of energy for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar energy systems for the commercial market that produce electricity at rates that are competitive with the price of retail electricity on a non-subsidized basis. If this were to occur, we would be at a competitive disadvantage to other energy providers and may be unable to attract new commercial customers, and our business would be harmed.

Rising interest rates could adversely impact our business.

Changes in interest rates could have an adverse impact on our business by increasing our cost of capital. For example:

- rising interest rates would increase our cost of capital; and
- rising interest rates may negatively impact our ability to secure financing on favorable terms to facilitate our customers' purchase of our solar energy systems or energy generated by our solar energy systems.

The majority of our cash flows to date have been from solar energy systems under lease and power purchase agreements that have been monetized under various financing fund structures. One of the components of this monetization is the present value of the payment streams from the customers who enter into these leases and power purchase agreements. If the rate of return required by the fund investor rises as a result of a rise in interest rates, it will reduce the present value of the customer payment stream and consequently reduce the total value derived from this monetization. Rising interest rates could harm our business and financial condition.

We have guaranteed a minimum return to be received by an investor in certain of our financing funds and could be adversely affected if we are required to make any payments under those guarantees.

In two of our financing funds with one of our financing partners, with total investments of approximately $86.2 million, we guaranteed to annually distribute a minimum amount. For one of these funds, we have also guaranteed to make payments to the investor to compensate for payments that the investor would be required to make to a certain third party as a result of the investor not achieving a specified minimum internal rate of return in this fund, assessed annually. The amounts of potential future payments under these guarantees depends on the amounts and timing of future distributions to the investor from the funds and the tax benefits that accrue to the investor from the funds' activities. Because of uncertainties associated with estimating the timing and amounts of distributions to the investor, we cannot determine the potential maximum future payments that we could have to make under these guarantees. We may agree to similar terms in the future if market conditions require it. Any significant payments that we may be required to make under our guarantees could adversely affect our financial condition.

In our lease pass-through financing funds, there is a one-time reset of the lease payments, and we may be obligated, in connection with the resetting of the lease payments at true up, to refund lease prepayments or to contribute additional assets to the extent the system sizes, costs, and timing are not consistent with the initial lease payment model.

In our lease pass-through financing funds, the models used to calculate the lease prepayments will be updated for each fund at a fixed date occurring after placement in service of all solar systems or an agreed upon date (typically within the first year of the applicable lease term) to reflect certain specified conditions as they exist at such date, including the ultimate system size of the equipment that was leased, how much it cost, and when it went into service. As a result of this true up, the lease payments are resized and we may be obligated to refund the investor's lease prepayments or to contribute additional assets to the fund. Any significant refunds or capital contributions that we may be required to make could adversely affect our financial condition.

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

Federal law and most state laws do not currently regulate us as a utility. As a result, we are not subject to the various federal and state standards, restrictions and regulatory requirements applicable to U.S. utilities. In the United States, we obtain federal and state regulatory exemptions by establishing "Qualifying Facility" status with the Federal Energy Regulatory Commission for all of our qualifying solar energy projects. In Canada, we also are generally subject to the regulations of the relevant energy regulatory agencies applicable to all producers of electricity under the relevant feed-in tariff regulations (including the feed-in tariff rates), however we are not currently subject to regulation as a utility. Our business strategy includes the continued development of larger solar energy systems in the future for our commercial and government customers, which has the potential to impact our regulatory position. Any local, state, federal or foreign regulations could place significant restrictions on our ability to operate our business and execute our business plan by prohibiting or otherwise restricting our sale of electricity. If we were subject to the same state, federal or foreign regulatory authorities as utilities in the United States or if new regulatory bodies were established to oversee our business in the United States or in foreign markets, then our operating costs would materially increase.

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 employees. In particular, we need to continue to expand and optimize our sales infrastructure to grow our customer base and our business, and we plan to expand our direct sales force. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take several months before a new salesperson is fully trained and productive. If we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of this investment or grow our business.

To complete current and future customer projects and to continue to grow our customer base, we need to hire a large number of installers in the relevant markets. Competition for qualified personnel in our industry is increasing, particularly for skilled installers and other personnel involved in the installation of solar energy systems and delivery of energy products and services. We also compete with the homebuilding and construction industries for skilled labor. As these industries recover and seek to hire additional workers, our cost of labor may increase. The unionization of our labor force could also increase our labor costs. Shortages of skilled labor could significantly delay a project or otherwise increase our costs. 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 margins or cover our costs for that project. In addition, because we are headquartered in the San Francisco Bay Area, we compete for a limited pool of technical and engineering resources that requires us to pay wages that are competitive with relatively high regional standards for employees in these fields.

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.

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

Since our formation in 2006, we have focused our efforts primarily on the sales, financing, engineering, installation and monitoring of solar energy systems for residential, commercial and government customers. We launched our energy efficiency line of products and services in mid-2010, and revenue attributable to this line of business has not been material compared to revenue attributable to our solar energy systems. 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. Additionally, we cannot assure you that we will be successful in generating substantial revenue from our new energy efficiency products and services or from any additional energy-related products and services we may introduce in the future. 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 financing results and business prospects. In addition, we only have limited insight into emerging trends that may adversely impact our business, prospects and operating results. As a result, our limited operating history may impair our ability to accurately forecast our future performance.

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

We have incurred net losses in the past, and we had an accumulated deficit of $142.4 million as of March 31, 2013. We may incur net losses from operations as we increase our spending to finance the expansion of our operations, expand our installation, engineering, administrative, sales and marketing staffs, and implement internal systems and infrastructure to support our growth. We do not know whether our revenue will grow rapidly enough to absorb these costs, and our limited operating history makes it difficult to assess the extent of these expenses or their impact on our operating results. Our ability to achieve profitability depends on a number of factors, including:

- growing our customer base;
- finding investors willing to invest in our financing funds;
- maintaining and further lowering our cost of capital;
- reducing the cost of components for our solar energy systems; and
- reducing our operating costs by optimizing our 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.

We face competition from both traditional energy companies and 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 utilities. We believe that our primary competitors are the traditional utilities that supply energy to our potential customers. We compete with these utilities primarily based on price, predictability of price, and the ease by which customers can switch to electricity generated by our solar energy systems. If we cannot offer compelling value to our customers based on these factors, then our business will not grow. Utilities generally have substantially greater financial, technical, operational and other resources than we do. As a result of their greater size, 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. 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 solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations which 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 either the residential or commercial solar energy markets, and some may provide energy at lower costs than we do. 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, installation, monitoring and efficiency services, this will reduce our marketplace differentiation.

We also face competition in the energy efficiency market and we expect to face competition in additional markets as we introduce new energy-related products and services. As the solar industry grows and evolves, we will also face new competitors who are not currently in the market. 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.

If we fail to remediate deficiencies in our control environment or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial and operating reporting and related disclosures may be adversely affected.

In connection with the audits of our consolidated financial statements for 2010 and 2011 we identified material weaknesses in our internal control over financial reporting and inventory processes. 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 a company's annual or interim financial statements will not be prevented or detected on a timely basis. These material weaknesses resulted from an aggregation of deficiencies.

The accounting policies associated with our financing funds are complex, which contributed to the material weaknesses in our internal control over financial reporting. For our lease pass-through arrangements, we initially characterized funds received from investors as deferred revenue rather than financing obligations, which resulted in adjustments to our 2010 consolidated financial statements. For a particular sale-leaseback transaction, we did not initially defer the correct amount of gain associated with this arrangement, which was corrected in our 2010 consolidated financial statements. The foregoing resulted in restatement of our 2010 consolidated financial statements. In addition, deficiencies in the design and operation of our internal controls resulted in audit adjustments and delayed our financial statement close process for the years ended December 31, 2010 and 2011. We are in the process of implementing policies and processes to remediate these material weaknesses and improve our internal control over financial reporting.

We have not performed an evaluation of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act, nor have we engaged our independent registered public accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date or for any period reported in our financial statements. Had we performed such an evaluation or had our independent registered public accounting firm performed an audit of our internal control over financial reporting, material weaknesses, in addition to those discussed above, may have been identified. For so long as we qualify as an "emerging growth company" under the JOBS Act, which may be up to five years following our IPO, we will not have to provide an auditor's attestation report on our internal controls in future annual reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. During the course of the evaluation, documentation or attestation, we or our independent registered public accounting firm may identify weaknesses and deficiencies that we may not otherwise identify in a timely manner or at all as a result of the deferred implementation of this additional level of review.

We have taken numerous steps to address the underlying causes of the control deficiencies referenced above, primarily through the development and implementation of policies, improved processes and documented procedures, and the hiring of additional accounting and finance personnel with technical accounting, inventory accounting and financial reporting experience. If we fail to remediate deficiencies in our control environment or are unable to implement and maintain effective internal control over financial reporting to meet the demands that are placed upon us as a public company, we may be unable to accurately report our financial results, or report them within the timeframes required by law or exchange regulations.

We cannot assure you that we will be able to remediate our existing material weaknesses in a timely manner, if at all, or that in the future additional material weaknesses will not exist or otherwise be discovered, a risk that is significantly increased in light of the complexity of our business. If our efforts to remediate these material weaknesses are not successful or if other deficiencies occur, our ability to accurately and timely report our financial position, results of operations, cash flows or key operating metrics could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements or other corrective disclosures, a decline in our stock price, suspension or delisting of our common stock by the NASDAQ Global Market, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

Projects for our significant commercial or government customers involve concentrated project risks that may cause significant changes in our financial results.

During any given financial reporting period, we typically have ongoing significant projects for commercial and governmental customers that represent a significant portion of our potential financial results for such period. For example, Walmart is a significant customer for which we have installed a substantial number of solar energy systems. In November 2011, we announced SolarStrong, our five-year plan to build more than $1 billion in solar energy projects for privatized U.S. military housing communities across the country that we anticipate will involve a significant investment in resources and project management over time and will require additional financing funds to support the project. These larger projects create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially impact our quarterly or annual financial results. In addition, if construction, warranty or operational issues arise on a larger project, or if the timing of such projects unexpectedly shifts for other reasons, such issues could have a material impact on our financial results. If we are unable to successfully manage these significant projects in multiple markets, including our related internal processes and external construction management, or if we are unable to continue to attract such significant customers and projects in the future, our financial results would be harmed.

We depend on a limited number of suppliers of solar panels and other system components to adequately meet anticipated demand for our solar energy systems. Any shortage, delay or component price change from these suppliers 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. If we fail to develop, maintain and expand our relationships with these or other suppliers, we may be unable to adequately meet anticipated demand for our solar energy systems, 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, we may be unable to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and we may be unable to satisfy this demand. In particular, there are a limited number of inverter suppliers. Once we design a system for use with a particular inverter, if that type of inverter is not readily available at an anticipated price, we may incur additional delay and expense to redesign the system. There have also been periods of industry-wide shortage 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. Any decline in the exchange rate of the U.S. dollar compared to the functional currency of our component suppliers could increase our component prices. In addition, the U.S. government has imposed tariffs on solar cells manufactured in China. Based on determinations by the U.S. government, the applicable anti-dumping and countervailing tariff rates range from approximately 8%-255%. To the extent that U.S. market participants experience harm from Chinese pricing practices, an additional tariff of approximately 15%-16% will be applied. Because we currently purchase solar panels containing cells manufactured outside of China, we currently are not adversely impacted by the tariffs. However, if in the future we purchase solar panels containing cells manufactured in China, our purchase price would reflect the tariff penalties mentioned above. Any of these shortages, delays or price changes 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, which could make our future performance difficult to predict and could cause our operating results for a particular period to fall below expectations, resulting in a severe decline in the price of our common stock.

Our quarterly 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 an early-stage company operating in a rapidly growing industry, those fluctuations may be masked by our recent growth rates and thus may not be readily apparent from our historical operating results. 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 products and services;
- our ability to complete installations in a timely manner due to market conditions resulting in inconsistently available financing;
- 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 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 quarters may fall short of the expectations of investors and financial analysts, which could have a severe adverse effect on the trading price of our common stock.

Our business benefits from the declining cost of solar panels, and our financial results would be harmed if this trend reversed or did not continue.

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the pricing of our solar energy systems and customer adoption of this form of renewable energy. If solar panel and raw materials prices increase or do not continue to decline, our growth could slow and our financial results would suffer. In addition, in the past we have purchased a significant portion of the solar panels used in our solar energy systems from manufacturers based in China, some of whom benefit from favorable foreign regulatory regimes and governmental support, including subsidies. If this support were to decrease or be eliminated, or if tariffs imposed by the U.S. government were to increase the prices of these solar panels, our ability to purchase these products on competitive terms or to access specialized technologies from those countries could be restricted. Any of those events could harm our financial results by requiring us to pay higher prices or to purchase solar panels or other system components from alternative, higher-priced sources. In addition, the U.S. government has imposed tariffs on solar cells manufactured in China. These tariffs will increase the price of solar panels containing these Chinese-manufactured cells, which may harm our financial results in the event we purchase such panels.

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 community we service, and we are responsible for every customer installation. For our residential projects, we are the general contractor, construction manager and installer. For our commercial projects, we are the general contractor and construction manager, and we typically rely on licensed subcontractors to install these commercial systems. We may be liable to customers for any damage we cause to their home or facility, belongings or property during the installation of our systems. For example, we frequently penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of construction. In addition, shortages of skilled subcontractor labor for our commercial projects could significantly delay a project or otherwise increase our costs. 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 margins or cover our costs for that project.

In addition, the installation of solar energy systems and the evaluation and modification of buildings as part of our energy efficiency business is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering, and related matters. It is difficult and costly to track the requirements of every individual authority having jurisdiction over our installations and to design solar energy systems to comply with these varying standards. Any new 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. The evaluation and modification of buildings as part of our energy efficiency business requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. We also maintain a fleet of more than 900 vehicles that our employees use in the course of their work. 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, and equivalent state laws. Changes to OSHA 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. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines and operational delays for certain projects. 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 warranty expenses and performance guarantee expenses, may lower the residual value of our solar energy systems and may damage our market reputation and cause our financial results to decline.

Our solar energy system warranties are lengthy. Customers who buy energy from us under leases or power purchase agreements are covered by warranties equal to the length of the term of these agreements—typically 20 years. Depending on the state where they live, customers who purchase our solar energy systems for cash are covered by a warranty up to 10 years in duration. We also make extended warranties available at an additional cost to customers who purchase our solar energy systems for cash. In addition, we provide a pass-through of the inverter and panel manufacturers' warranties to our customers, which generally range from 5 to 25 years. One of these third-party manufacturers could cease operations and no longer honor these warranties, instead leaving us to fulfill these potential obligations to our customers. For example, Evergreen Solar, Inc., one of our former solar panel suppliers, filed for bankruptcy in August 2011. Further, we provide a performance guarantee with our leased solar energy systems that compensates a customer on an annual basis if their system does not meet the electricity production guarantees set forth in their lease.

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 production guarantees. Product failures or operational deficiencies also would reduce our revenue from power purchase agreements because they are dependent on system production. Any widespread product failures or operating deficiencies may damage our market reputation and adversely impact our financial results.

In addition, we amortize costs of our solar energy systems over 30 years, which typically exceeds the period of the component warranties and the corresponding payment streams from our operating lease arrangements with our customers. In addition, we typically bear the cost of removing the solar energy systems at the end of the lease 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. Consequently, if the residual value of the systems is less than we expect at the end of the lease, after giving effect to any associated removal and redeployment costs, we may be required to accelerate all or some of the remaining unamortized expenses. This could materially impair our future operating results.

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

If one of our solar energy systems or other products injured someone we would be exposed to product liability claims. Because solar energy systems and many of our other current and anticipated products are electricity producing devices, it is possible that consumers could be injured by our products, whether by product malfunctions, defects, improper installation or other causes. We rely on our general liability insurance to cover product liability claims and have not obtained separate product liability insurance. 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 that could require us to make significant payments, as well as subject us to adverse publicity, damage our reputation and competitive position. Also, any product liability claims and any adverse outcomes may subject us to adverse publicity, damage our reputation and competitive position and adversely affect sales of our systems and other products.

Damage to our brand and reputation would harm our business and results of operations.

We depend significantly on our reputation for high-quality products and services, best-in-class engineering, exceptional customer service and the brand name "SolarCity" to attract new customers and grow our business. If we fail to continue to deliver our solar energy systems and our other energy products and services within the planned timelines, if our products and services do not perform as anticipated or if we damage any of our customers' properties or cancel projects, our brand and reputation could be significantly impaired. In addition, if we fail to deliver, or fail to continue to deliver, high-quality products and services to our customers through our long-term relationships, our customers will be less likely to purchase future products and services from us, which is a key strategy to achieve our desired growth. We also depend greatly on referrals from existing customers for our growth, in addition to our other marketing efforts. Therefore, our inability to meet or exceed our current customers' expectations would harm our reputation and growth through referrals.

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, 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. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third-parties and attract new customers and suppliers, as well as to manage multiple geographic locations.

In addition, our current and planned operations, personnel, systems and procedures might be inadequate to support our future growth and may require us to make additional unanticipated investment 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 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 products and services or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

We may not be successful in leveraging our customer base to grow our business through sales of other energy products and services.

To date, we have derived substantially all of our revenue and cash receipts from the sale of solar energy systems and the sale of energy under our long-term customer agreements. We launched our energy efficiency line of products and services in mid-2010, and revenue attributable to this line of business has not been material compared to revenue attributable to our solar energy systems. Customer demand for these offerings may be more limited than we anticipate. In addition, several of our other energy products and services, including our battery storage solutions, are in the early stages of testing and development. We may not be successful in completing development of these products as a result of research and development difficulties, technical issues, availability of third-party products or other reasons. Even if we are able to offer these or other additional products and services, we may not successfully generate meaningful customer demand to make these offerings viable. If we fail to deliver these additional products and services, if the costs associated with bringing these additional products and services to market is greater than we anticipate, if customer demand for these offerings is smaller than we anticipate, or if our strategy to implement a new sales approach of facilitating energy efficiency upgrades through trusted third-party vendors in lieu of performing these upgrades ourselves is not successful, our growth will be limited.

Our growth depends in part on the success of our strategic relationships with third parties.

A key component of our growth strategy is to develop or expand our strategic relationships with third parties. For example, we are investing resources in establishing relationships with industry leaders, such as trusted retailers and commercial homebuilders, to generate new customers. Identifying partners and negotiating relationships with them requires significant time and resources. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to grow our business could be impaired. Even if we are able to establish these relationships, we may not be able to execute on our goal of leveraging these relationships to meaningfully expand our business and customer base. This would limit our growth potential and our opportunities to generate significant additional revenue or cash receipts.

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

We depend on our experienced management team, and the loss of one or more key executives could have a negative impact on our business. In particular, we are dependent on the services of our chief executive officer and co-founder, Lyndon R. Rive, and our chief operations officer, chief technology officer and co-founder, Peter J. Rive. We also depend on our ability to retain and motivate key employees and attract qualified new employees. Neither our founders nor our key employees are bound by employment agreements for any specific term, and we may be unable to replace key members of our management team and key employees in the event we lose their services. Integrating new employees into our management 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 and results of operations.

Our business may be harmed if we fail to properly protect our intellectual property.

We believe that the success of our business depends in part on our proprietary technology, including our software, information, processes and know-how. We rely on trade secret and patent protections to secure our intellectual property rights. We cannot be certain that we have adequately protected or will be able to adequately protect our proprietary technology, that our competitors will not be able to utilize our existing technology or develop similar technology independently, that the claims allowed with respect to any patents held by us will be broad enough to protect our technology or that foreign intellectual property laws will adequately protect our intellectual property rights. Moreover, we cannot be certain that our patents provide us with a competitive advantage. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our consent. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. In the future, some of our products could be alleged to infringe existing patents or other intellectual property of third parties, and we cannot be certain that we will prevail in any intellectual property dispute. In addition, any future litigation required to enforce our patents, to protect our trade secrets or know-how or to defend us or indemnify others against claimed infringement of the rights of others could harm our business, financial condition and results of operations.

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 NASDAQ Global Market and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase 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, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

As a public company, we also expect that it will be more expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain 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.

The production and installation of solar energy systems depends heavily on suitable 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 and weather conditions, both 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 tornadoes. In these circumstances, we generally would be obligated to bear the expense of repairing the damaged solar energy systems that we own. Sustained unfavorable weather also could unexpectedly delay our installation of solar energy systems, leading to increased expenses and decreased revenue and cash receipts in the relevant periods. Weather patterns could change, making it harder to predict the average annual amount of sunlight striking each location where we install. 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 and results of operations.

We typically bear the risk of loss and the cost of maintenance and repair on solar systems that are owned or leased by our fund investors.

We typically bear the risk of loss and are generally obligated to cover the cost of maintenance and repair on any solar systems that we sell or lease to our fund investors. At the time we sell or lease a solar system to a fund investor, we enter into a maintenance services agreement where we agree to operate and maintain the system for a fixed fee that is calculated to cover our future expected maintenance costs. If our solar 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 systems, a majority of which are located in California, are damaged in the event of a natural disaster beyond our control, losses could be excluded, such as earthquake damage, 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. We purchase Property and Business Interruption insurance with industry standard coverage and limits approved by an investor's third party insurance advisors to hedge against such risk, but such coverage may not cover our losses.

Any unauthorized disclosure or theft of personal information we gather, store and 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. Unauthorized disclosure of such personal information, whether through breach of our systems by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If we were subject to an inadvertent disclosure of such personal information, or if a third party were to gain unauthorized access to customer personal information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by our customers. In addition, we could incur significant costs in complying with the multitude of federal, state and local laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized 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.

We may have trouble refinancing our credit facilities or obtaining new financing for our working capital, equipment financing and other needs in the future or complying with the terms of existing credit facilities. If credit facilities are not available to us on acceptable terms, if and when needed, or if we are unable to comply with their terms, our ability to continue to grow our business would be adversely impacted.

We have entered into several secured credit agreements, including a working capital facility with a commitment of $100.0 million that matures in September 2014, a $58.5 million term loan credit facility for the purchase of inventory and working capital needs that matures in August 2013, and a $7.0 million term facility to finance the purchase of vehicles that matures in the first quarter of 2015. Each facility requires us to comply with certain financial, reporting and other requirements. The timing of our commercial projects has on occasion adversely affected our ability to satisfy certain financial covenants under these or prior facilities. While our lenders have given us waivers of certain covenants we have not satisfied in the past, there is no assurance that the lenders will waive or forbear from exercising their remedies with respect to any future defaults that might occur, which also could trigger defaults under our other credit agreements. For example, on April 30, 2012 and May 31, 2012, we did not meet a financial ratio covenant, and on June 30, 2012, we breached a financial covenant related to non-GAAP EBITDA under our prior working capital facility, which also resulted in a default under a separate vehicle financing facility with the same administrative bank agent. The bank waived these breaches, and in September 2012 we refinanced all amounts borrowed under the prior working capital facility with a working capital facility with a commitment of $100.0 million that matures in September 2014. We believe that some of the financial and other covenants are generally more favorable to us than those in the prior working capital facility, however a breach of these covenants may still occur in the future.

Further, there is no assurance that we will be able to enter into new credit facilities on acceptable terms. If we are unable to satisfy financial covenants and other terms under existing or new facilities or obtain associated 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.

In the long term, we intend to expand our international activities, which will subject us to a number of risks.

Our long-term strategic plans include international expansion, and we intend to sell our solar energy products and services in international markets. Risks inherent to international operations include the following:

- inability to work successfully with third parties with local expertise to co-develop international projects;
- multiple, conflicting and changing laws and regulations, including export and import restrictions, tax laws and regulations, environmental regulations, labor laws and other government requirements, approvals, permits and licenses;
- changes in general economic and political conditions in the countries where we operate, including changes in government incentives relating to power generation and solar electricity;

- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- international business practices that may conflict with U.S. customs or legal requirements;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable;
- fluctuations in currency exchange rates relative to the U.S. dollar; and
- inability to obtain, maintain or enforce intellectual property rights, including inability to apply for or register material trademarks in foreign countries.

Doing business in foreign markets requires us to be able to respond to rapid changes in market, legal, and political conditions in these countries. The success of our business will depend, in part, on our ability to succeed in differing legal, regulatory, economic, social and political environments. We may not be able to develop and implement policies and strategies that will be effective in each location where we do business.

Risks Related to the Ownership of Our Common Stock

Our stock price has been and may continue to be volatile, and the value of your investment could decline.

The trading price of our common stock has been volatile since our initial public offering. Since shares of our common stock were sold in our initial public offering in December 2012 at a price of $8.00 per share, the reported high and low sales prices of our common stock has ranged from $9.20 to $39.00 per share, through May 13, 2013. The market price of our common stock may fluctuate widely in response to many risk factors listed in this section and others beyond our control, including:

- addition or loss of significant customers;
- changes in laws or regulations applicable to our industry, products or services;
- additions or departures of key personnel;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts;
- 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 involving us, our industry or both;
- major catastrophic events; and

- general economic and market conditions and trends.

Further, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In addition, the stock prices of many renewable energy companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of our common stock to decline. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us 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 within the meaning of the rules under the Securities Act. We have in this quarterly report on Form 10-Q utilized, and we plan in future filings with the SEC to continue to utilize, the modified disclosure requirements available to emerging growth companies, including reduced disclosure about our executive compensation and omission of compensation discussion and analysis, and an exemption from the requirement of holding a nonbinding advisory vote on executive compensation. In addition, we will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act, including the additional testing of our internal control over financial reporting as may occur when outside auditors attest as to our internal control over financial reporting, and we have elected to delay adoption of new or revised accounting standards applicable to public 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 elected to utilize this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards as they become applicable to public companies. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We could remain an ''emerging growth company'' for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceed $1 billion, (ii) the date that we become a ''large accelerated filer'' as defined in Rule 12b-2 under the Exchange Act, which would occur if 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 (iii) 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.

Upon expiration of the underwriters' lock-up from our initial public offering, which is currently scheduled to be released on June 11, 2013, approximately 61.9 million shares of our outstanding common stock will become eligible for sale, subject in some cases to volume and other restrictions of Rules 144 and 701 under the Securities Act, as well as our insider trading policy. Holders of up to approximately 51.9 million of these shares of our common stock, or 69.2% of our total outstanding common stock, based on shares outstanding as of March 31, 2013, will be entitled to rights with respect to registration of these shares under the Securities Act pursuant to an investors' rights agreement. If these holders of our common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. Sales of substantial amounts of our common stock in the public market following the release of the lock-up or otherwise, or the perception that these sales could occur, could cause the market price of our common stock to decline.

Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.

As of March 31, 2013, our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, owned approximately 76.3% of the outstanding shares of our common stock. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and that may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

Provisions in our certificate of incorporation and bylaws 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 and bylaws 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 with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- 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; and
- 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.

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, to some extent, depends on 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 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 covers 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.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

ITEM 6. EXHIBITS

The documents listed in the Exhibit Index of this quarterly report on Form 10-Q are incorporated by reference or are filed with this quarterly report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2013

SOLARCITY CORPORATION

By: /s/ LYNDON R. RIVE
Lyndon R. Rive
Chief Executive Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.11 *	Loan Agreement between City UB Solar, LLC (an indirect wholly owned subsidiary of the Registrant) and Union Bank, N.A., dated as of February 8, 2013
31.1	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the 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 Schema Linkbase Document.
101.CAL††	XBRL Taxonomy Calculation Linkbase Document.
101.DEF††	XBRL Taxonomy Definition Linkbase Document.
101.LAB††	XBRL Taxonomy Labels Linkbase Document.
101.PRE††	XBRL Taxonomy Presentation Linkbase Document.

* Confidential treatment requested as to certain portions of this exhibit, which portions have been omitted and submitted separately to the Securities and Exchange Commission.

† The certifications attached as Exhibit 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 SolarCity Corporation 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 Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

†† XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

Exhibit 10.11

CONFIDENTIAL TREATMENT REQUESTED

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

LOAN AGREEMENT

between

CITY UB SOLAR, LLC,
a Delaware limited liability company
(Borrower);

and

UNION BANK, N.A.,
a national bank association
(as Lender)

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

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SCHEDULES

EXHIBITS

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

LOAN AGREEMENT

This LOAN AGREEMENT, dated as of February 8, 2013 (this "Agreement"), is made by and among CITY UB SOLAR, LLC, a Delaware limited liability company ("Borrower") and UNION BANK, N.A., a national banking association (the "Lender").

WHEREAS, Borrower is an indirect wholly owned subsidiary of SolarCity Corporation, a Delaware Corporation ("SolarCity")

WHEREAS, SolarCity, indirectly holds an equity interest in [***] the "Owners");

WHEREAS, a certain tax equity investor (the "Investor") indirectly holds [***] the "Master Tenants"), respectively;

WHEREAS, each Owner directly owns a portfolio of PV Systems;

WHEREAS, Borrower was formed to acquire the Investor's ownership interest in the Master Tenants [***];

WHEREAS, on or about the date hereof, Borrower has paid to the Investor the purchase price due under the Sale Documents (as defined herein) in respect of the Investor's interests in the Master Tenants [***];

WHEREAS, Borrower has requested that the Lender make a term loan and other financial accommodations to Borrower in an aggregate amount of up to $10,000,000.00 (the "Commitment") on the terms, and subject to the conditions, set forth herein, in order to reimburse Borrower for such purchase price paid to the Investor under the Sale Documents;

WHEREAS, immediately following the acquisition by Borrower of the Master Tenants pursuant to the Sale Documents and funding of the term loan by Lender, (i) [***] and (ii) Borrower shall cause [***] (the "Guarantors") to execute a Guarantee, Pledge and Security Agreement for the benefit of the Lender in the form attached hereto as Exhibit A, pursuant to which each Guarantor will jointly and severally guarantee the obligations of Borrower under this Agreement and pledge a security interest in all of its assets for the benefit of the Lender;

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

WHEREAS, the Lender have agreed to make such loan and other financial accommodations to the Borrower on the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

AGREEMENT

In consideration of the agreements herein and in the other Financing Documents and in reliance upon the representations and warranties set forth herein and therein, the parties agree as follows:

ARTICLE 1

DEFINITIONS

1.1 Definitions. Except as otherwise expressly provided, capitalized terms used in this Agreement and its exhibits and schedules shall have the meanings set forth below.

"**Accession Agreement**" means the agreement by which Borrower becomes a beneficiary to the Master Back-up Services Agreement.

"**Accounts**" shall mean the Master Revenue Account and the Owner Accounts.

"**Affiliate**" of a specified Person means any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Person specified or who holds or beneficially owns 50% or more of the equity interest in the Person specified or 50% or more of any class of voting securities of the Person specified. As used herein, the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of partnership interests or voting securities, by contract or otherwise.

"**Amortization Schedule**" means, with respect to the Term Loan, the schedule of required payments of principal due and payable on each Scheduled Payment Date, as set forth in Schedule 1 attached hereto.

"**Anti-Terrorism Laws**" means any federal laws of the United States of America relating to terrorism or money laundering, including Executive Order 13224; the Patriot Act and the regulations administered by OFAC.

"**Applicable Permit**" means any Permit, including any zoning, environmental protection, pollution, sanitation, FERC, any State public utility commission, safety, siting or building Permit that is material or necessary at any given time in light of the operation of any Project to operate, maintain, repair, own or use any such Project as contemplated by the Operative Documents, to sell electricity or renewable energy credits, "green tags" or other like environmental credits or benefits therefrom, to enter into any Operative Document or to consummate any transaction contemplated thereby.

"**Applicable Interest Rate**" means for a given Interest Period the per annum rate equal to the lower of (i) the sum of LIBOR *plus* 3.25% and (ii) from and after the execution and delivery of the Interest Rate Cap, such percentage rate as set forth therein.

"**Arches**" SolarCity Arches Holdings, LLC, a Delaware limited liability company that is wholly-owned by Member.

"**Asset Management Agreement**" means that certain Asset Management Agreement, dated as of the Closing Date, by and between the Borrower and SolarCity, as provider.

"**Assumptions"** means with respect to the Term Loan, over the term of the Loan: (i) the Debt Service Coverage Ratio will be [***], (ii) production will be based on (A) P50 Insolation, (B) a degradation factor of 0.5%, (iii) the maintenance and services expenses of the Borrower will be $[***] per year per DC megawatt of installed nameplate capacity, prorated for any capacity not available for a full year, and escalating annually in an amount equal to [***]% of the fee paid for the preceding year, as set forth in the Maintenance and Services Agreement, (iv) the administrative expenses of the Borrower will be $[***] per year per DC megawatt of installed nameplate capacity, prorated for any capacity not available for a full year, and escalating annually in an amount equal to [***]% of the fee paid for the preceding year, as set forth in the Asset Management Agreement, (v) the back-up service provider fees of $[***] per year, as set forth in the Accession Agreement, and (vi) the insurance expenses of the Borrower.

"**Bankruptcy Event**" shall be deemed to occur with respect to any Person if (a) such Person shall institute a voluntary case seeking liquidation or reorganization under the Bankruptcy Law or shall consent to the institution of an involuntary case thereunder against it; (b) such Person shall file a petition, answer or consent or shall otherwise institute any similar proceeding under any other applicable federal, State or other applicable law, or shall consent thereto; (c) such Person shall apply for, or by consent there shall be an appointment of, a receiver, liquidator, sequestrator, trustee or other officer with similar powers for itself or any substantial part of its assets; (d) such Person shall make an assignment for the benefit of creditors; (e) such Person shall admit in writing its inability to pay its debts generally as they become due; (f) if an involuntary case shall be commenced seeking the liquidation or reorganization of such Person under the Bankruptcy Law or any similar proceeding shall be commenced against such Person under any other applicable federal, State or other applicable law and (i) the petition commencing the involuntary case is not timely controverted; (ii) the petition commencing the involuntary case is not dismissed within sixty (60) days of its filing; (iii) an interim trustee is appointed to take possession of all or a portion of the property, and/or to operate all or any part of the business of such Person and such appointment is not vacated within sixty (60) days; or (iv) an order for relief shall have been issued or entered therein; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers of such Person or of all or a part of its property, shall have been entered; or (h) any other similar relief shall be granted against such Person under any federal, State or other applicable law.

"**Bankruptcy Law**" means Title 11, United States Code, and any other State or federal insolvency, reorganization, moratorium or similar law for the relief of debtors.

"**Borrower**" has the meaning set forth in the Preamble.

"**Borrower Entities**" means Borrower, each Managing Member, Master Tenant Corporation and each Owner.

"**Borrower's Knowledge**" means the actual knowledge of any Responsible Officer of any Borrower Entity of (x) a fact, condition or circumstance or (y) a fact, condition or circumstance which would cause a reasonably prudent person to conduct further inquiry.

"**Borrowing**" means the borrowing of the Term Loan pursuant to this Agreement.

"**Borrowing Notice**" has the meaning set forth in Section 2.1(f).

"**Business Day**" means any day other than a Saturday, Sunday or other day on which banks are authorized to be closed in California.

"**Capital Adequacy Requirement**" has the meaning given in Section 2.4(b) of this Agreement.

"**Change in Control**" has the meaning given in Section 7.1(g) of this Agreement.

"**Change of Law**" means, after the Closing Date, the (i) occurrence of any adoption of any Governmental Rule, any change in any Governmental Rule or the application or requirements thereof (whether such change occurs in accordance with the terms of such Governmental Rule as enacted, as a result of amendment, or otherwise), any change in the interpretation or administration of any Governmental Rule by any Governmental Authority, or (ii) compliance by the Lender or Borrower with any request or directive (whether or not having the force of law) of any Governmental Authority, that, in each such case, makes it unlawful or impossible for the Lender to make or maintain the Term Loan.

"**Claims**" has the meaning given in Section 5.12(a)(i) of this Agreement.

"**Closing Certificate**" means a closing certificate, in the form of Exhibit C to this Agreement.

"**Closing Date**" means the date when each of the conditions precedent listed in Section 3.1 of this Agreement has been satisfied (or waived in writing by the Lender).

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Collateral**" means, with respect to a Security Document, all property which is subject or is or is intended or required to become subject to the security interests or Liens granted by such Security Document.

"**Collateral Agency and Depositary Agreement**" has the meaning given in Section 2.7(c) of this Agreement.

"**Commitment**" has the meaning set forth in the Recitals.

"**Controlled Group**" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with Borrower, are treated as a single employer under Section 414(b) or 414(c) of the Code.

"**Customer Agreement**" means either (i) a power purchase agreement, between a Host Customer and a Owner, whereby such Owner sells such Host Customer electricity generated by the affiliated PV System or (ii) a lease, between a Host Customer a Owner, whereby the such Owner leases the affiliated PV System to such Host Customer.

"**Customer Buyout**" means a Host Customer's exercise of its purchase option at a given termination value in accordance with its Customer Agreement.

"**Customer Payments**" means all payments made by the Host Customers to the applicable Owner pursuant to the Customer Agreements.

"**Customer Prepay**" means a Host Customer's exercise of its right under its Customer Agreement to prepay all of its obligations for the remainder of the term set forth therein.

"**Debt**" of any Person at any date means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, Note or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such Person under leases which are or should be, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable, (e) all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities (or property), (f) all deferred obligations of such Person to reimburse any bank or other Person in respect of amounts paid or advanced under a letter of credit or other instrument, (g) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person and (h) all Debt of others guaranteed directly or indirectly by such person or as to which such Person has an obligation substantially the economic equivalent of a guarantee.

"**Debt Service Coverage Ratio**" means, with respect to any Twelve Month Period, the ratio of: (a) Revenues of all Owners, less Operating Expenses to (b) the aggregate outstanding interest and scheduled principal due and payable under the Term Loan during such Twelve Month Period, through and including the Scheduled Payment Date immediately preceding the delivery of such Portfolio Report.

"**Default**" means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time, the giving of notice or both, would constitute an Event of Default.

"**Default Rate**" means, with respect to the Term Loan and all other Obligations under the Financing Documents, Applicable Interest Rate plus 2% per annum.

"**Depository**" means Corporate Trust Services of Union Bank, N.A.

"**Dollars**" and "**$**" means United States dollars or such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts in the United States of America.

"**Environmental Claim**" means any and all obligations, liabilities, losses, administrative, regulatory or judicial actions, suits, demands, decrees, claims, liens, judgments, warning notices, notices of noncompliance or violation, investigations, proceedings, removal or remedial actions or orders, or damages (foreseeable and unforeseeable, including consequential and punitive damages), penalties, fees, out-of-pocket costs, expenses, disbursements, attorneys' or consultants' fees, relating in any way to any Hazardous Substances Law or any Permit issued under any such Hazardous Substances Law (hereafter "Hazard Claims"), including (a) any and all Hazard Claims by Governmental Authorities for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Hazardous Substances Law, and (b) any and all Hazard Claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to health, safety or the environment.

"**Equity Rights**" means, with respect to any Person, any subscriptions, options, warrants, Commitment, preemptive rights or agreements of any kind (including any members' or voting agreements) for the issuance, sale, registration or voting of, or securities convertible into, any additional shares of capital stock of any class, or partnership, membership or other ownership interests of any type in, such Person.

"**ERISA**" means the Employee Retirement Income Security Act of 1974.

"**ERISA Plan**" means any employee benefit plan (a) maintained by Borrower or any member of the Controlled Group, or to which any of them contributes or is obligated to contribute, for its employees and (b) covered by Title IV of ERISA or to which Section 412 of the Code applies.

"**Event of Default**" has the meanings given in Section 7.1 of this Agreement.

"**Existing Bank Account**" means each of the Master Tenants' accounts identified on Schedule 3.1(n) of this Agreement.

"**FDIC**" means the Federal Deposit Insurance Corporation and its successors.

"**Federal Reserve Board**" means the Board of Governors of the Federal Reserve System.

"**FERC**" means the Federal Energy Regulatory Commission and its successors.

"**Financing Documents**" means this Agreement, the Note, the Interest Rate Cap, the SolarCity Indemnity Agreement and the Security Documents, and any other documents, agreements or instruments entered into in connection with any of the foregoing.

"**Financial Model**" means a computer model agreed to by the Borrower and the Lender, showing the anticipated economic results and the Assumptions used to project the estimated cash flow available for the payment of principal and interest on the Term Loan, as set forth in more detail in the attached Schedule 3.

"**GAAP**" means (i) generally accepted accounting principles in the United States of America consistently applied and (ii) upon mutual agreement of the parties, internationally recognized generally accepted accounting principles, consistently applied.

"**Guarantee, Pledge and Security Agreement**" means the Guarantee, Pledge and Security Agreement to be executed by each of the Guarantors for the benefit of the Lender as of the date hereof in the form attached hereto as Exhibit A.

"**Guarantors**" has the meaning set forth in the Recitals.

"**Governmental Authority**" means any national, State or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity, (including any zoning authority, FERC, the relevant State commissions, the FDIC, the Comptroller of the Currency or the Federal Reserve Board, any central bank or any comparable authority) or any arbitrator with authority to bind a party at law.

"**Governmental Rule**" means any statute, law, regulation, ordinance, rule, judgment, order, decree, permit, concession, grant, franchise, license, agreement, directive, guideline, policy requirement or other governmental restriction or any similar form of decision of or determination by, or any interpretation or administration of any of the foregoing having the force of law by, any Governmental Authority, whether now or hereafter in effect.

"**Hazardous Substances**" means any hazardous or toxic substance or waste, pollutant or contaminant which is regulated by Hazardous Substances Law including, but not limited to, petroleum products, asbestos, polychlorinated byphenols and radioactive materials.

"**Hazardous Substances Law**" means any and all State and local statutes, laws, regulations, ordinances, judgments, orders, codes or injunctions which imposes liability for or standards of conduct concerning the generation, distribution, use, treatment, storage, disposal, cleanup, transport or handling of Hazardous Substances including, but not limited to, the Federal Water Pollution Control Act (as amended) the Resource Conservation and Recovery Act of 1976 (as amended) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended) the Toxic Substances Control Act (as amended) and the Occupational Safety and Health Act of 1970 (as amended) to the extent it relates to the handling of and exposure to hazardous or toxic materials or similar substances.

"**Holdco**" has the meaning given in Section 5.18 of this Agreement.

"**Host Customer**" means the customer under a Customer Agreement in respect of a Project.

"**Indemnitees**" has the meaning given in Section 5.12 of this Agreement.

"**Incentives**" means any and all proceeds of any renewable energy or other credits, pollution allowances, offsets, subsidies, grants, utility rebates, or benefits or similar incentives to any of the foregoing, including but not limited to (i) renewable energy credits under any state renewable portfolio standard or federal renewable energy standard, pollution allowances, carbon credits and similar environmental allowances or credits and green tag or other reporting rights under Section 1605(b) of The Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program, and (ii) any payment by a utility or state or local Governmental Authority as an inducement to a utility customer, solar company or installer to install or use solar equipment, including, without limitation, a payment in the form of a performance-based incentive.

"**Interest Period**" means each calendar month; provided that,

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall end on the next preceding Business Day;

(b) the initial Interest Period shall begin on the Closing Date; and

(c) no Interest Period shall extend beyond the Loan Maturity Date.

"**Interest Rate Cap**" means an interest rate cap agreement, to be entered into after the Closing Date, by and between the Borrower and Lender.

"**Investor**" has the meaning set forth in the Recitals.

"**Legal Requirements**" means, as to any Person, the articles of incorporation, bylaws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation including any Governmental Rule, any requirement under a Permit, and any determination of any Governmental Authority in each case applicable to or binding upon such Person or any of its properties or to which such Person or any of its property is subject.

"**Lender**" has the meaning set forth in the Preamble.

"**Lending Office**" means the office in the United States of America designated as such beneath the name of the Lender set forth in Schedule 2 of this Agreement or such other office that Lender may specify in writing from time to time to the Borrower in accordance with this Agreement.

"**LIBOR**" means for any Interest Period with respect to the Term Loan, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or such other commercially available source providing quotations of BBA LIBOR as may be designated by the Lender from time to time) at approximately 11:00 a.m., London time, two (2) London Banking Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period.

"**Lien**" on any asset means any mortgage, deed of trust, lien, pledge, charge, security interest, restrictive covenant by Borrower, easement or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected or effective under applicable law, as well as the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"**Loan Agreement**" or this "**Agreement**" has the meaning set forth in the Preamble.

"**Loan Maturity Date**" means January 31, 2015.

"**Local Account**" means the account in the name of the Borrower at Union Bank, N.A. No. [***].

"**Maintenance Services Agreement**" means that certain maintenance services agreement, dated as of the Closing Date, by and between the Borrower and SolarCity, as provider.

"**Managing Member**" means [***].

"**Master Back-up Servicing Agreement**" means that certain Master Back-Up Servicing Agreement, dated as of December 14, 2012, by and among SolarCity Corporation, in its individual capacity and as provider and [***], as back-up provider.

"**Master Revenue Account**" has the meaning ascribed to such term in the Collateral Agency and Depositary Agreement.

"**Master Tenant**" has the meaning set forth in the Recitals.

"**Master Tenant I**" means has the meaning set forth in the Recitals.

"**Master Tenant II**" has the meaning set forth in the Recitals.

"**Master Tenant III**" has the meaning set forth in the Recitals.

"[***]" [***].

"**Material Adverse Effect**" means, with respect to any Person, (a) any event or occurrence that has a material adverse effect on the business, results of operations or condition (financial or otherwise) of such Person; (b) any event or occurrence of whatever nature which would materially and adversely affect (i) the ability of such Person to perform its obligations under the Financing Documents, including the debt service payments with respect to the Term Loan (including, but not limited to, the payment of Fees, interest and principal due with respect to Projects) by the Loan Maturity Date, or (ii) with respect to the Financing Documents, the validity or priority of the Lender's security interests in, and Liens on, the Collateral and the continued effectiveness and enforceability of the Security Documents.

"**Member**" means SolarCity Fund Holdings, LLC, a Delaware limited liability company.

"**Member Pledge**" has the meaning given in Section 2.7(a)(i)(B) of this Agreement.

"**Minimum Credit Requirements**" means (i) in respect of any residential Host Customer, [***].

"**Minimum Lower Credit Requirements**" means [***].

"**Moody's**" means Moody's Investors Service, Inc. and any successor thereto.

"**Multiemployer Plan**" means any ERISA Plan that is a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) to which Borrower or any member of the Controlled Group is making, or has an obligation to make, contributions, or has made, or has been obligated to make, contributions since the date which is six (6) years immediately preceding the Closing Date.

"**Note**" has the meanings given in Section 2.1(e) of this Agreement.

"**Obligations**" means and includes, all loans, advances, debts and liabilities howsoever arising (and whether arising or incurred before or after any Bankruptcy Event), owed by the Borrower to Lender of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, pursuant to the terms of this Agreement or any of the other Financing Documents, including all principal, interest, amounts due under any letter of credit, indemnity or reimbursement obligations, fees, charges, expenses, attorneys' fees and accountants fees chargeable to Borrower in connection with its dealings with Borrower and payable by Borrower under this Agreement or any of the other Financing Documents.

"**OFAC**" means the United States Department of the Treasury's Office of Foreign Assets Control.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

"**OFAC Lists**" has the meaning assigned to such term in Section 4.1(w) of this Agreement.

"**OFAC Violation**" has the meaning assigned to such term in Section 5.14(b) of this Agreement.

"**Operating Expenses**" means the sum of (i) the maintenance and services expenses set forth in the Maintenances Services Agreement, (ii) the administrative expenses set forth in the Asset Management Agreement, (iii) the back-up service provider fees set forth in the Accession Agreement, (iv) the insurance expenses, (v) the collateral agency fees set forth in the Collateral Agency and Depositary Agreement, and (vi) any other expenses specifically related to the servicing and maintenance of the Projects.

"**Operative Documents**" means the Financing Documents, the Sale Documents and the Project Documents.

"**Organizational Documents**" means, with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement or limited liability company agreement and any other agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization.

"**Other Sources**" means any funds made available to Borrower by any other Person; provided that with respect to Borrower and Member, "Other Sources" shall include any funds provided by Member or Borrower that is not otherwise required to be made available or paid pursuant to its respective obligations under any Financing Document.

"**Other Taxes**" has the meaning given in Section 2.3(d)(i) of this Agreement.

"**Owner**" has the meaning set forth in the Recitals.

"**Owner I**" has the meaning set forth in the Recitals.

"**Owner II**" has the meaning set forth in the Recitals.

"**Owner III**" has the meaning set forth in the Recitals.

"**Owner Accounts**" has the meaning ascribed to such term in the Collateral Agency and Depositary Agreement.

"**P50 Insolation**" means, with respect to any given Project, the insolation estimate provided by SolarCity that has a 50% probability of being met or exceeded by the actual insolation experienced at the project site for any given years.

"**Patriot Act**" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56 (*a/k/a* the USA Patriot Act).

"**PBGC**" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under Title IV of ERISA.

"**Permit**" means any action, approval, consent, waiver, exemption, variance, franchise, order, permit, authorization, right or license of or from a Governmental Authority.

"**Permitted Investments**" means (a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (b) interest-bearing demand or time deposits (including certificates of deposit) which are either (i) insured by the Federal Deposit Insurance Corporation, or (ii) held in banks and savings and loan associations, having general obligations rated at least "AA" or equivalent by S&P and at least "Aa2" by Moody's; (c) obligations of any State or any agency or instrumentality of any of the foregoing which are rated at least "AA" by S&P and at least "Aa2" by Moody's; (d) commercial paper rated (on the date of acquisition thereof) at least A-1 or P-1 or equivalent by S&P and Moody's, respectively (or an equivalent rating by another nationally recognized credit rating agency of similar standing if neither of such corporations is then in the business of rating commercial paper), maturing not more than thirty (30) days from the date of creation thereof; or (e) any money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by money market funds rated at least "AA" by S&P or "Aa2" or better by Moody's, as long as the portfolio of such money market fund is limited to obligations under sub-paragraph (a).

"**Permitted Liens**" means (i) Liens of materialmen, mechanics, workers, repairmen or employees arising in the ordinary course of business; (ii) Liens imposed by any Governmental Authority for Taxes not yet due or being contested in good faith and by appropriate proceedings and in respect of which appropriate reserves acceptable to the Lender have been established in accordance with GAAP; (iii) Liens arising out of judgments or awards so long as an appeal or proceeding for review is being prosecuted in good faith and for the payment of which appropriate reserves have been established in accordance with GAAP, bonds or other security have been provided or are fully covered by insurance, in each case, as acceptable to the Lender; (iv) the rights and interests of the Lender as provided in the Financing Documents; (v) the rights of Host Customers under Customer Agreements; and (vi) encumbrances consisting of zoning restrictions, licenses, restrictions on use of property or imperfections in title relating to a Project which could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on the Borrower.

"**Person**" means any natural person, corporation, limited liability company, partnership, firm, association, Governmental Authority or any other entity whether acting in an individual, fiduciary or other capacity.

"**Prepaid Project**" shall a Project for which the applicable Host Customer has fully prepaid all its obligations under the respective Customer Agreement for the term set forth therein.

"**Project**" means a PV System, the associated real property rights, rights under the applicable Customer Agreements and all other related rights to the extent applicable thereto including, without limitation, all Parts and manufacturers' warranties and rights to access Host Customer data.

"**Project Documents**" means the Maintenance Services Agreement, the Asset Management Agreement, the Accession Agreement and any replacement services agreement thereof in accordance with the terms thereunder.

"**Projected Debt Service Coverage Ratio**" means, with respect to the delivery of any Portfolio Report, the projected ratio of: (a) Revenues of all Owners, less Operating Expenses for the Twelve Month Period beginning on the Scheduled Payment Date occurring in the month to which such Portfolio Report pertains to (b) the aggregate outstanding interest and scheduled principal due and payable under the Term Loan during such Twelve Month Period.

"**Portfolio Report**" means a report, substantially in the form of Exhibit E hereto, providing aggregate performance data of the Projects.

"**PV System**" means a photovoltaic system, including photovoltaic panels, racks, wiring and other electrical devices, conduit, weatherproof housings, hardware, one or more inverters, remote monitoring equipment, connectors, meters, disconnects and over current devices.

"**Register**" has the meaning given in Section 8.13 of this Agreement.

"**Regulation D**" means Regulation D of the Board of Governors of the Federal Reserve System of the United States of America and any successor thereto.

"**Regulatory Change**" means any change after the date of this Agreement in federal, State, local or foreign laws, regulations, Legal Requirements or requirements under Applicable Permits, or the adoption or making after such date of any interpretations, directives or requests of or under any federal, State, local or foreign laws, regulations, Legal Requirements or requirements under Applicable Permits (whether or not having the force of law) by any Governmental Authority charged with the interpretation or administration thereof.

"[***]" [***].

"**Reportable Event**" means any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty day notice period is waived under subsection 13, 14, 16, 1, 19 or 20 or PBGC Reg. Section 2615.

"**Reserve Requirement**" means, with respect to the Lender, the maximum rate (expressed as a percentage) at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during the applicable interest period therefor under Regulation D by the Lender. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by the Lender by reason of any Regulatory Change against (i) any category of liabilities or extensions of credit or other assets which include the Term Loan or (ii) any category of liabilities or extensions of credit which are considered an irrevocable Commitment to lend, unless such loans are exempt from this foregoing list.

"**Responsible Officer**" means, as to any Person, its president, chief executive officer, chief operating officer, chief financial officer, controller or treasurer, or any managing general partner or managing member of such Person that is a natural person (or any of the preceding with regard to any managing general partner or managing member of such Person that is not a natural person).

"**Revenues**" shall mean, in respect of any Owner for any period, the sum of the following amounts received by such Owner during such period: all income, revenue, proceeds and other amounts, including but not limited to, all Customer Payments, Incentives and insurance or condemnation proceeds, arising out of or in connection with the Projects.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

"**Sale Documents**" means the [***].

"**Scheduled Payment Date**" means any of the dates set forth in the Amortization Schedule on which a payment of principal on the Term Loan is due and payable.

"**Security Agreement**" has the meaning given in Section 2.7(a) of this Agreement.

"**Security Documents**" means the Collateral Agency and Depositary Agreement, the Member Pledge, the Security Agreement, the Guarantee, Pledge and Security Agreement and any other security documents, financing statements and other documentation filed or recorded in connection with the foregoing.

"**Single Employer Plan**" means any employee benefit plan which is covered by Title IV of ERISA but which is not a Multiemployer Plan.

"**SolarCity**" has the meaning set forth in the Recitals.

"**SolarCity Indemnity Agreement**" means the Indemnity Agreement, dated as of the date hereof, from SolarCity for the benefit of the Lender.

"**State**" means (a) any state of the United States of America or (b) the District of Columbia.

"**Subsidiary**" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

"**Taxes**" has the meaning given in Section 2.3(d)(i) of this Agreement.

"**Twelve Month Period**" means, with respect to a given Scheduled Payment Date, any 12 month period ending on such Scheduled Payment Date; provided, however, if such 12 month period commenced before the Closing Date, than such period shall solely be the period from the Closing Date until such Scheduled Payment Date.

"**Term Loan**" has the meaning given in Section 2.1(a) of this Agreement.

"**UCC**" means the Uniform Commercial Code of the jurisdiction the law of which governs the document in which such term is used or which governs the creation or perfection of the Liens granted thereunder.

"[***]" [***].

1.2 Rules of Interpretation. Except as otherwise expressly provided, the rules of interpretation set forth below shall apply to this Agreement and the other Financing Documents.

(a) The singular includes the plural and the plural includes the singular. The definitions of terms apply equally to the singular and plural forms of the terms defined.

(b) A reference to a Governmental Rule includes any amendment or modification to such Governmental Rule, and all regulations, rulings and other Governmental Rules promulgated under such Governmental Rule.

(c) A reference to a Person includes its permitted successors and assigns.

(d) The words "include," "includes" and "including" are not limiting.

(e) A reference in a document to an Article, Section, Exhibit, Schedule, Annex or Appendix is to the Article, Section, Exhibit, Schedule, Annex or Appendix of such document unless otherwise indicated. Exhibits, Schedules, Annexes or Appendices to any document shall be deemed incorporated by reference in such document. In the event of any conflict between the provisions of this Agreement (exclusive of the Exhibits, Schedules, Annexes and Appendices thereto) and any Exhibit, Schedule, Annex or Appendix thereto, the provisions of this Agreement shall control.

(f) References to any document, instrument or agreement (i) shall include all exhibits, schedules and other attachments thereto, (ii) shall include all documents, instruments or agreements issued or executed in replacement thereof, and (iii) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified and supplemented from time to time and in effect at any given time.

(g) The words “hereof,” “herein” and “hereunder” and words of similar import when used in any document shall refer to such document as a whole and not to any particular provision of such document.

(h) References to “days” shall mean calendar days, unless the term “Business Days” shall be used. References to a time of day shall mean such time in California, unless otherwise specified.

(i) The Financing Documents are the result of negotiations between, and have been reviewed by Borrower, the Lender and their respective counsel. Accordingly, the Financing Documents shall be deemed to be the product of all parties thereto, and no ambiguity shall be construed in favor of or against Borrower or the Lender.

(j) Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “will” and “shall” shall be construed to have the same meaning and effect.

(k) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding.”

(l) Accounting terms have the meanings assigned to them by GAAP, as applied by the accounting entity to which they refer.

(m) Unless otherwise specified in this Agreement, whenever a payment is required to be made pursuant to this Agreement on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day. Whenever performance of a required action, other than a payment, is due under this Agreement on a day that is not a Business Day, such performance shall be made on the next succeeding Business Day.

(n) If, at any time after the Closing Date, Moody’s or S&P shall change its respective system of classifications, then any Moody’s or S&P “rating” referred to herein shall be considered to be at or above a specified level if it is at or above the new rating which most closely corresponds to the specified level under the old rating system.

ARTICLE 2

THE CREDIT FACILITY

2.1 Term Loan.

(a) Term Loan. The Lender hereby agrees, on and subject to the terms and conditions of this Agreement, to make one term loan to the Borrower (the "Term Loan") on the Closing Date in Dollars in a principal amount up to but not exceeding the Commitment.

(b) Interest Provisions Relating to Term Loan.

(i) Interest Rate. Borrower shall pay interest (including interest accruing after the commencement of an insolvency proceeding under applicable Bankruptcy Law) on the unpaid principal amount of the Term Loan from the Closing Date until the Loan Maturity Date at the Applicable Interest Rate.

(ii) Interest Payment Dates. Interest on the unpaid principal amount of the Term Loan shall be payable in arrears on the last day of each Interest Period as provided in Section 5.1(a) of the Collateral Agency and Depositary Agreement, upon any prepayment of the Term Loan as and to the extent provided in Section 5.4 of the Collateral Agency and Depositary Agreement and at maturity (whether by acceleration or otherwise); provided that interest payable pursuant to Section 2.3(c) shall be payable on demand.

(iii) Interest Computations. All computations of interest on the Term Loan hereunder shall include the first day but exclude the last day of the period for which such interest is payable and shall be based upon a year of 360 days.

(iv) Interest Account and Interest Computations. Borrower authorizes the Lender to record in an account or accounts maintained by the Lender on its books (A) the interest rates applicable to the Term Loan; (B) the date and amount of each principal and interest payment on the Term Loan; and (C) such other information as the Lender may determine is necessary for the computation of interest payable by Borrower hereunder consistent with the basis hereof. Borrower agrees that all computations by the Lender of interest shall be deemed prima facie to be correct unless refuted by Borrower. The Lender shall deliver to Borrower a statement detailing such computations of interest when it delivers the calculations described in such Section.

(c) Principal Payments of Term Loan.

(i) On each Scheduled Payment Date, Borrower shall repay a portion of the outstanding principal of the Term Loan in an amount equal to the amount set forth in the Amortization Schedule for such Scheduled Payment Date.

(ii) On each Scheduled Payment Date, Borrower shall apply amounts remaining in the Master Revenue Account to repay outstanding principal on the Term Loan in accordance with the terms of the Collateral Agency and Depositary Agreement.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(iii) Subject to Section 7.2(b), any remaining unpaid principal, interest, fees and costs payable hereunder or under any other Financing Documents shall be due and payable on the Loan Maturity Date.

(d) Promissory Note. If requested by the Lender, the obligation of Borrower to repay the Term Loan and to pay interest thereon at the rates provided herein shall be evidenced by a promissory note in the form of Exhibit B (the "Note"), payable to the order of the Lender.

(e) Term Loan Funding. No later than 12:00 p.m., Pacific time, on a date of the Borrowing confirmed by a final irrevocable notice of Borrower ("Borrowing Notice"), if the applicable conditions precedent listed in Section 3.1 have been satisfied or waived, the Lender shall make available the Commitment in Dollars in immediately available funds to an account maintained by the Borrower.

(f) Prepayments.

(i) Voluntary Prepayment of Term Loan. Borrower may, at its option, using funds from Other Sources, prepay outstanding amounts under the Term Loan in whole or in part, without premium or penalty (except as set forth in Section 2.5). Any optional prepayment hereunder shall be in a minimum aggregate amount of Fifty Thousand Dollars ($50,000) or such lesser amount as shall remain outstanding in the aggregate under the Term Loan. Borrower will give the Lender written notice of each optional prepayment in accordance with Section 4.2 of the Collateral Agency and Depositary Agreement prior to the date the proceeds of such prepayment are applied in accordance with clause (iii) below.

(ii) Mandatory Prepayments. With respect to a given Project, upon receipt by the Borrower of (A) proceeds from a Host Customer in connection with a Customer Buyout, (B) proceeds from a Host Customer in connection with a Customer Prepay, (C) insurance/condemnation proceeds due to a "casualty event," or (D) a down payment from a Host Customer in connection with the Minimum Lower Credit Requirements, 100% of such proceeds shall be transferred to the applicable Owner Account within two (2) Business Days of receipt of such proceeds. Borrower will give the Lender written notice in accordance with Section 4.2 of the Collateral Agency and Depositary Agreement prior to the date the proceeds of such prepayment are applied in accordance with clause (iii) below.

(iii) The proceeds of any prepayment made pursuant to this Section 2.1(f) shall be allocated in accordance with Section 5.4 of the Collateral Agency and Depositary Agreement.

2.2 [***]. [***].

2.3 Other Payment Terms.

(a) Place and Manner. Except as otherwise provided herein, Borrower shall make all payments due to the Lender hereunder at its account in the United States identified in Schedule 2 from time to time, in lawful money of the United States and in immediately available funds not later than 2:00 p.m., Pacific time, on the date on which such payment is due (subject to the provisions of this Agreement). Any payment made after such time on any day shall be deemed received on the next Business Day after such payment is received.

(b) Date. Unless otherwise specified in this Agreement, whenever any payment due hereunder shall fall due on a day other than a Business Day, such payment shall instead be due on the next succeeding Business Day, and such extension of time shall be included in the computation of interest or fees, as the case may be.

(c) Late Payments. If an Event of Default has occurred and is continuing hereunder, interest shall accrue at the Default Rate on the aggregate, outstanding principal balance of the Term Loan from the occurrence of an Event of Default hereunder until the earlier to occur of (i) the date all Obligations are paid in full or (ii) the date such Event of Default is remedied or waived by the Lender.

(d) Net of Taxes, Etc.

(i) Taxes. Any and all payments to or for the benefit of the Lender by Borrower hereunder or under any other Financing Document shall, so long as the Lender shall have complied with its obligations set forth in Section 2.3(f), be made free and clear of and without deduction, setoff or counterclaim of any kind whatsoever and in such amounts as may be necessary in order that all such payments, after deduction for or on account of any present or future taxes, levies, imposts, deductions, charges or withholdings imposed by the United States of America or any political subdivision thereof arising from or relating to the Commitment or Term Loan made under this Agreement, and all liabilities with respect thereto (excluding taxes based on or measured by the income or capital (including in this exclusion taxes imposed in lieu thereof, franchise taxes, minimum taxes and branch profits taxes) of the Lender by any jurisdiction or any political subdivision or taxing authority thereof or therein as a result of a connection between the Lender and such jurisdiction or political subdivision, other than a connection resulting solely from executing, delivering or performing its obligations or receiving a payment under, or enforcing, this Agreement or any) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"), shall be not less than the amounts otherwise specified to be paid under this Agreement and the other Financing Documents. If Borrower shall be required by law to withhold or deduct any Taxes imposed by the United States of America or any political subdivision thereof from or in respect of any sum payable hereunder or under any other Financing Document to the Lender, and, so long as the Lender shall have complied with its obligations set forth in Section 2.3(f), (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.3(d)), the Lender receives an amount equal to the sum it would have received had no such deductions been made; (B) Borrower shall make such deductions; and (C) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. If Borrower shall make any payment under this Section 2.3(d) to or for the benefit of the Lender with respect to Taxes and if the Lender shall claim any credit or deduction for such Taxes against any other taxes payable by the Lender to any taxing jurisdiction then the Lender shall pay to Borrower an amount equal to the amount by which such other taxes are actually reduced; provided that (i) the aggregate amount payable by the Lender pursuant to this sentence shall not exceed the aggregate amount previously paid by Borrower with respect to such Taxes and (ii) nothing in this paragraph shall be construed to require the Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person. In addition, Borrower agrees to pay any present or future stamp, recording or documentary taxes and any other excise or property taxes, charges or similar levies that arise under the laws of the United States of America or the State in which any Project or Borrower is located from any payment made hereunder or under any other Financing Document or from the execution or delivery or otherwise with respect to this Agreement or any other Financing Document (hereinafter referred to as "Other Taxes").

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(ii) Indemnity. Borrower shall indemnify the Lender for the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.3(d)) arising from the execution, delivery or performance of its obligations or from receiving a payment hereunder, or enforcing this Agreement or any Financing Document, paid by the Lender, or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted; provided that Borrower shall not be obligated to indemnify the Lender for any penalties, interest or expenses relating to Taxes or Other Taxes arising from the Lender's gross negligence or willful misconduct. The Lender agrees to give notice to Borrower of the assertion of any claim against the Lender relating to such Taxes or Other Taxes as promptly as is practicable; provided that the Lender's failure to so notify Borrower of such assertion shall not relieve Borrower of its obligation under this Section 2.3(d), except to the extent that such indemnified amount is actually increased as a direct result of such failure. Payments by Borrower pursuant to this indemnification shall be made within thirty (30) days from the date the Lender makes written demand therefor, which demand shall be accompanied by a certificate describing in reasonable detail the basis and calculation thereof and certifying further that the method used to calculate such amount is fair and reasonable. The Lender agrees to (i) repay to Borrower any refund (including that portion of any interest that was included as part of such refund with respect to Taxes or Other Taxes paid by Borrower pursuant to this Section 2.3(d)) received by the Lender for Taxes or Other Taxes that were paid by Borrower pursuant to this Section 2.3(d); provided, however, that (A) Lender shall not be required to pay any amounts pursuant to this Section 2.3(d) at any time when an Event of Default exists; (B) the aggregate amount payable by the Lender pursuant to this sentence shall not exceed the aggregate amount previously paid by Borrower with respect to such Taxes and (C) nothing in this paragraph shall be construed to require the Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person and (ii) to contest, with the cooperation and at the expense of Borrower, any such Taxes or Other Taxes which the Lender or Borrower reasonably believes not to have been properly assessed.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(iii) Notice. Within thirty (30) days after the date of any payment of Taxes or Other Taxes by Borrower, Borrower shall furnish to the Lender, at its address referred to in Section 8.1, the original or a certified copy of a receipt evidencing payment thereof (or if such receipt is not available, any other proof of payment reasonably satisfactory to the Lender). The Lender shall promptly provide a copy of such receipt to the Lender. Borrower shall compensate the Lender for all losses and expenses sustained by the Lender as a result of any failure by Borrower to so furnish the original or certified copy of such receipt or such other proof.

(iv) Survival of Obligations. The obligations of Borrower under this Section 2.3(d) shall survive the termination of this Agreement and the repayment and discharge of the Obligations.

(e) Withholding Exemption Certificates. Nothing in this Section 2.3(f) shall be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person. On or before the Closing Date, the Lender agrees that it will deliver to Borrower either (i) a statement that it is a United States person (as defined in Section 7701(a)(30) of the Code); or (ii) if it is not a United States person, a letter in the form of Exhibit D and two (2) duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI or successor applicable form, as the case may be, certifying in each case that the Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. The Lender which delivers to Borrower a Form W-8BEN (claiming an exemption under an applicable treaty or a portfolio interest exemption) or W-8ECI pursuant to the preceding sentence further undertakes to deliver to Borrower further copies of the said letter and Form W-8BEN or W-8ECI, or successor applicable forms, or other manner of certification or procedure, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or within a reasonable time after gaining knowledge of the occurrence of any event requiring a change in the most recent letter and forms previously delivered by it to Borrower, and such extensions or renewals thereof as may reasonably be requested by Borrower, certifying in the case of a Form W-8BEN or W-8ECI that the Lender is entitled to receive payments under this Agreement and the other Financing Documents without deduction or withholding of any United States federal income taxes, unless in any such cases a Change of Law has occurred after the Closing Date which renders all such forms inapplicable or which would prevent the Lender from duly completing and delivering any such letter or form with respect to it.

2.4 Change of Circumstances.

(a) Increased Costs. If, after the date of this Agreement, any Change of Law (other than any Change of Law in respect of Taxes):

(i) shall impose, modify or hold applicable any reserve, special deposit or similar requirement (without duplication of any reserve requirement included within the interest rate through the definition of "Reserve Requirement") against assets held by, deposits or other liabilities in or for the account of, advances or loans by the Lender; or

(ii) shall impose on the Lender any other condition directly related to the Term Loan or Commitment,

and the effect of any of the foregoing is to increase the cost to the Lender of making, issuing, creating, renewing, participating in or maintaining the Term Loan or Commitment or to reduce any amount receivable by the Lender hereunder or under the Note, if any, then Borrower shall, upon receipt of three (3) Business Days' advance written demand by the Lender (accompanied by a certificate setting forth the amount of the incurred costs), pay to the Lender additional amounts sufficient to reimburse the Lender for such increased costs or to compensate the Lender for such reduced amounts, to the extent actually incurred by or suffered by the Lender.

(b) Capital Requirements. If the Lender determines in good faith that (i) any Change of Law affects the amount of capital required or expected to be maintained by the Lender or the Lending Office of the Lender (a "Capital Adequacy Requirement") and (ii) the amount of capital maintained by the Lender or such Lending Office which is attributable to or based upon the Term Loan, the Commitment or this Agreement must be increased as a result of such Capital Adequacy Requirement, Borrower shall pay to the Lender, upon demand of the Lender (accompanied by a certificate setting forth the amount of such incurred costs), such amounts as the Lender shall determine are necessary to compensate the Lender for the increased costs to the Lender of such increased capital.

(c) Notice. The Lender will notify the Lender of any event occurring after the date of this Agreement that will entitle the Lender to compensation pursuant to this Section 2.4, as promptly as is practicable, and the Lender shall promptly notify Borrower of such event; provided that the Lender's failure to notify the Lender of such assertion shall not relieve Borrower of its obligation under this Section 2.4.

2.5 [Intentionally Omitted]

2.6 Alternate Office; Minimization of Costs.

(a) The Lender may designate a Lending Office other than that set forth on Schedule 2 and may assign all of its interests under the Financing Documents, and its Note, to such Lending Office, provided that such designation and assignment do not at the time of such designation and assignment increase the reasonably foreseeable liability of Borrower under Section 2.3(d), Section 2.4(a) or Section 2.4(b).

(b) The Lender shall use commercially reasonable efforts to avoid or minimize any additional costs, taxes, expense or obligation which might otherwise be imposed on Borrower pursuant to Section 2.3(d), Section 2.4(a) or Section 2.4(b) or as a result of the Lender being subject to a Reserve Requirement; provided, however, that such efforts shall not cause the imposition on the Lender of any additional costs or legal or regulatory burdens.

2.7 Security. All Obligations of Borrower under the Financing Documents shall be secured by, and Borrower shall deliver or cause to be delivered to the Lender on the Closing Date the following:

(a) a Borrower Pledge and Security Agreement duly executed by Borrower and the Lender (the "Security Agreement");

(b) a Member Guarantee, Pledge and Security Agreement duly executed by Member, Borrower and the Lender (the "Member Pledge");

(c) a Collateral Agency and Depositary Agreement duly executed by the Borrower, the Lender, and Union Bank, N.A., as depositary (the "Collateral Agency and Depositary Agreement"); and

(d) [***] the Guarantee, Pledge and Security Agreement.

2.8 Release of Collateral due to Customer Buy-Out.

(a) If, due to a Customer Buyout, the Borrower indefeasibly pays all of the outstanding Obligations with respect to the applicable Project under Section 2.1(f)(ii), to the extent the Lender confirms that all Obligations of the Borrower allocated to such Project have been repaid in full, any and all Liens on any Collateral arising under and in connection with such Project, granted to the Lender on or prior to the date of such prepayment pursuant to the relevant Security Documents, shall be automatically discharged and terminated in fully, solely to the extent that such Liens and such Collateral relate to such Project.

(b) Once the Collateral relating to a Project is released pursuant to Section 2.8(a), such Project shall not be deemed to be a Project for any purpose under the Operative Documents. Notwithstanding anything in Articles 5 or 6 to the contrary, such released Collateral can be sold, leased, transferred or otherwise disposed of or distributed.

ARTICLE 3

CONDITIONS PRECEDENT

3.1 Conditions Precedent to the Closing Date. The occurrence of the Closing Date, the effectiveness of this Agreement and the making of the Term Loan by the Lender are subject to the prior satisfaction of each of the following conditions (unless waived in writing by the Lender in its sole discretion):

(a) Delivery to the Lender of the following executed originals of each Financing Document, each of which shall be satisfactory in form and substance to the Lender and shall have been duly authorized, executed and delivered by the parties thereto:

(i) this Agreement;

(ii) the Note;

(iii) the Security Agreement;

(iv) the Member Pledge;

(v) the Collateral Agency and Depositary Agreement

(vi) the SolarCity Indemnity Agreement; and

(vii) any other Financing Document contemplated or required to be effective as of the Closing Date (to the extent such documents are required to be executed as of the Closing Date).

(b) Delivery to the Lender of the following, each of which shall be reasonably satisfactory in form and substance to the Lender and shall have been duly executed and delivered by the party thereto:

(i) a secretary's certificate, satisfactory in form and substance to the Lender, from Borrower and Member, signed by each of its respective authorized Responsible Officers and dated as of the Closing Date, certifying as to the Organizational Documents of each such party (which, to the extent filed with a Governmental Authority, shall be certified as of a recent date by such Governmental Authority), the resolutions of the governing body of each such Party, the good standing, existence or its equivalent of each such party and of the incumbency of the Responsible Officers of each such Party.

(ii) a Closing Certificate of Borrower, dated as of the Closing Date.

(iii) an opinion, dated as of the Closing Date, of Wilson Sonsini Goodrich & Rosati, counsel to Borrower and Member, in a form reasonably acceptable to Lender;

(c) Delivery to the Lender of copies of the following documents, duly authorized, executed and delivered by the parties thereto:

(i) Sale Documents;

(ii) Maintenance Services Agreement;

(iii) Asset Management Agreement; and

(iv) Accession Agreement.

(d) As of the Closing Date, each representation and warranty set forth in Section 4.1 is true and correct in all respects (unless such representation or warranty relates solely to an earlier date, in which case it shall have been true and correct in all respects as of such earlier date).

(e) No Default or Event of Default has occurred and is continuing or will result from the making of the Term Loan requested hereunder.

(f) The Accounts shall have been established with the Depositary and Borrower shall have instructed SolarCity, as provider under Maintenance Services Agreement, to direct all Customer Payments and other Revenues directly to the applicable Owner Account.

(g) All Liens contemplated by the Security Documents to be created and perfected in favor of the Lender as of the Closing Date shall have been perfected, recorded and filed in the appropriate jurisdictions.

(h) The Lender shall have received a (A) searches of UCC filings in the jurisdiction of incorporation or formation, as applicable, of Borrower and Member and each jurisdiction where a filing would need to be made in order to perfect the Lender's security interest in the Collateral, (B) copies of the financing statements on file in such jurisdictions and evidence that no Liens exist other than Permitted Liens and (B) tax lien, judgment and bankruptcy searches in such jurisdictions.

(i) The UCC financing statements relating to the Collateral shall have been duly filed in each office and in each jurisdiction where required in order to create and perfect the first Lien and security interest set forth in the Security Agreement and Borrower shall have properly delivered or caused to be delivered to the Lender all such Collateral that requires perfection of the Lien and security interest described above by possession or control.

(j) All amounts [***] required to be paid to or deposited with the Lender hereunder and under any other separate agreement with such parties, and all taxes, fees and other costs payable in connection with the execution, delivery and filing of the documents and instruments required to be filed as a condition precedent pursuant to this Section 3.1, shall have been paid in full.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(k) The Lender shall have received (i) the most recent unaudited directionally correct pro forma financial statements of Borrower, such financial statements to be in the form and substance satisfactory to the Lender and (ii) the most recent annual (2011) and quarterly (2012) financial statements of each of the Owners.

(l) The Lender shall have received the Financial Model, such Financial Model to be satisfactory to Lender;

(m) The Lender shall have received all such documentation and information requested by the Lender that is necessary for the Lender to identify Borrower in accordance with the requirements of the Patriot Act (including the "know your customer" and similar regulations thereunder).

(n) Borrower shall cause all amounts of the Owners on deposit or credited to any Existing Bank Accounts (other than any amounts which will be required to make the other payments required to be made under this Section 3.1 on the Closing Date) shall have been transferred to the Master Revenue Account established as provided in the Collateral Agency and Depositary Agreement.

(o) Each Project shall be a qualifying small power production facility pursuant to FERC's regulations at 18 C.F.R. § 292.203(a), with a power production capacity of less than 20 MW and, to the extent required under FERC regulations to preserve such status, the Borrower shall have filed with FERC a notice of self-certification, or obtained from FERC an order granting certification, with respect to such status.

(p) The Lender shall have received a Portfolio Report for the month of December 2012 in form and substance satisfactory to it.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties.

Borrower makes the following representations and warranties to, and in favor of, the Lender as of the Closing Date.

(a) Organization.

(i) Borrower (A) is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware; (B) is duly qualified, authorized to do business and in good standing in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary; and (C) has all requisite limited liability company power and authority to own or hold under lease the property it purports to own or hold under lease and to carry on its business as now being conducted and as proposed to be conducted under the Operative Documents to which it is a party.

(ii) Member (A) is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware; (B) is duly qualified, authorized to do business and in good standing in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary; (C) has all requisite limited liability company power and authority to own or hold its interest in Borrower and to carry on its business as now being conducted and as proposed to be conducted by it under the Operative Documents in respect of the Projects.

(iii) The only holder of all membership interests in Borrower is the Member and (A) there are no outstanding Equity Rights with respect to Borrower and (B) there are no outstanding obligations of Borrower to repurchase, redeem, or otherwise acquire any membership or other equity interests in Borrower or to make payments to any Person, such as "phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of Borrower. Borrower is authorized to issue and has issued only one class of membership interests.

(iv) SolarCity (A) is a corporation duly formed, validly existing and in good standing under the laws of the State of Delaware; (B) is duly qualified, authorized to do business and in good standing in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary; (C) has all requisite corporate power and authority to own or hold its interest in Member and to carry on its business as now being conducted and as proposed to be conducted by it under the Operative Documents in respect of the Projects.

(b) Authorization; No Conflict. Each of Borrower and Member has duly authorized, executed and delivered each Operative Document to which it is a party, and neither such entity's execution and delivery thereof nor the performance thereof (i) will be in conflict with or result in a breach of such entity's organizational documents; (ii) will materially violate any other Legal Requirement applicable to or binding on Borrower or Member or any of their respective properties; (iii) will result in any breach of or constitute any default under, or result in or require the creation of any Lien (other than Permitted Liens) upon any of the Collateral under, any agreement or instrument to which it is a party or by which it or any of the Collateral may be bound or affected; or (iv) will require the consent or approval of any Person, which has not already been obtained.

(c) Enforceability. Each Operative Document to which any Borrower Entity is a party is a legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting the enforcement of creditors' rights generally and subject to general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

(d) ERISA. No Borrower Entity sponsors, maintains, administers, contributes to, participates in, or has any obligation to contribute to or any liability under, any ERISA Plan, nor since the date which is six (6) years immediately preceding the Closing Date has any Borrower Entity established, sponsored, maintained, administered, contributed to, participated in, or had any obligation to contribute to or liability under, any ERISA Plan. Each Borrower Entity is in compliance with all applicable provisions of ERISA and the Code and all other laws applicable to ERISA Plans, including the Age Discrimination in Employment Act, the Americans With Disabilities Act and Title VII of the Civil Rights Act. No Borrower Entity has any employees.

(e) Taxes. Each Borrower Entity and Member have filed, or have caused to be filed, all federal, State and local tax returns that it is required to file, has paid or has caused to be paid all taxes it is required to pay to the extent due, provided, however, that any Borrower Entity or Member may contest in good faith any such taxes and, in such event, may permit the taxes so contested to remain unpaid during any period, including appeals, when Borrower or Member, as the case may be, is in good faith contesting the same, so long as, with respect to any such dispute (or aggregate pending disputes) in an amount greater than Two Hundred Fifty Thousand Dollars ($250,000), (a) adequate reserves to the extent required by GAAP have been established to the satisfaction of the Lender; (b) enforcement of the contested tax is effectively stayed for the entire duration of such contest; and (c) any tax determined to be due, together with any interest or penalties thereon, is paid when due after resolution of such contest.

(f) Business. No Borrower Entity has conducted any business other than the acquisition and ownership of the Projects and activities related or incident thereto (including those contemplated by Borrower's Operative Documents). No Borrower Entity has any outstanding debt or other material liabilities except as contemplated by the Operative Documents and is not a party to or bound by any material contract other than the Operative Documents to which it is a party.

(g) Collateral. The security interests granted to the Lender pursuant to the relevant Security Documents in the Collateral (i) constitute as to personal property included in such Collateral and, with respect to subsequently acquired personal property included in such Collateral, will constitute, a first priority perfected security interest and Lien under each applicable UCC subject to no other Liens except Permitted Liens; and (ii) are, and, with respect to such subsequently acquired property, will be, as to such Collateral perfected under each applicable UCC subject to no other Liens except Permitted Liens.

(h) Private Offering. Assuming that the Lender is acquiring the Note for investment purposes only, and not for purposes of resale or distribution thereof except for assignments or participations as provided in Section 8.11, Section 8.12 and Section 8.13, no registration of the Note under the Securities Act of 1933, as amended, or under the securities laws of the State in which a Project is located is required in connection with the offering, issuance and sale of the Note hereunder. Neither Borrower nor anyone acting on its behalf has taken, any action which would subject the offering, issuance or sale of the Note to Section 5 of the Securities Act of 1933, as amended.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(i) Investment Company, Holding Company Act. None of Borrower Entities nor Member is an "investment company" within the meaning of, or is regulated as an "investment company" under, the Investment Company Act of 1940.

(j) Regulations T, U, X, Etc. Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined or used in Regulations T, U or X of the Federal Reserve Board), and no part of the proceeds of the Term Loan will be used by Borrower to "purchase" or "carry" any such "margin stock" as so defined, or to extend credit to others for the purpose of purchasing or carrying any such margin stock or otherwise in violation of Regulations T, U or X of the Federal Reserve Board.

(k) Financial Statements. The financial statements (including the notes thereto) delivered in respect of Borrower pursuant to Section 3.1(k) and Section 5.4 fairly present in all material respects the financial condition of Borrower as of the date thereof, subject to the audit and normal year-end adjustments and the absence of footnote disclosure. Such financial statements have been prepared in accordance with GAAP. No such Person has any direct or contingent material liabilities that are required to be disclosed pursuant to GAAP, except as has been disclosed in such financial statements or otherwise disclosed in writing to the Lender prior to the date hereof. Except as disclosed in the Closing Certificate of the Borrower, there is no evidence of a Material Adverse Effect with respect to any Borrower Entity in such financial statements since the delivery of such financial statements.

(l) Existing Defaults. Borrower has not received or issued any notice of a default of any material term of any Project Document. Borrower is not in default under any material term of any Project Document to which it is a party.

(m) No Default. No Default or Event of Default has occurred and is continuing.

(n) Litigation. Except as set forth on Schedule 4.1(n) hereto, there are no instituted, pending or, to Borrower's Knowledge, threatened actions, suits, proceedings, or to Borrower's Knowledge, investigations, of any kind, including actions or proceedings of or before any Governmental Authority, which could reasonably be expected to result in a Material Adverse Effect on any Borrower Entity.

(o) Disclosure. Neither this Agreement nor any Financing Document, nor any certificate furnished to the Lender, by or on behalf of Borrower in connection with the transactions contemplated by this Agreement and the other Financing Documents (such information to be taken as a whole, including, without limitation, updated or supplemented information) contains (or in the case of any certificate delivered on behalf of Borrower, to Borrower's Knowledge contains) any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not materially misleading under the circumstances in which they were made at the time such statements were made; provided, however, that no representation or warranty is made with respect to projections or other forward-looking statements provided by or on behalf of Borrower.

(p) Tax Status. For United States federal and State income tax purposes, Borrower will be treated as either (i) a partnership or a disregarded entity or (ii) a corporation that is a member (but not the parent corporation) of a group filing consolidated or combined income tax returns. Neither the execution and delivery of the Financing Documents nor the consummation of any of the transactions contemplated by such Financing Documents will affect such status. Borrower has made such elections and taken such other actions, and agrees and warrants that it shall, at all times make such elections and take such other actions, as would permit Borrower to maintain the status as either (i) a partnership or a disregarded entity or (ii) a corporation that is a member (but not the parent corporation) of a group filing consolidated or combined income tax returns for U.S. Federal and State income tax purposes, to the maximum extent permitted by applicable Governmental Rules.

(q) Compliance with Law. Each Borrower Entity has complied in all material respects with all applicable Governmental Rules.

(r) No Other Bank Accounts. Neither Borrower nor any other Borrower Entity has any "account" with a "bank" (within the meaning of Section 4-104(a)(1) and 4-105(1) of the UCC, respectively) other than the Accounts, the Existing Bank Accounts and the Local Account.

(s) Financial Model. Borrower has disclosed to the Lender the Assumptions, and Borrower represents and warrants that the projections for each Project set forth in the Financial Model submitted to the Lender on the Closing Date (i) are based on good faith estimates and commercially reasonable assumptions made by Borrower, and (ii) are consistent, with the historical performance of the Projects (and similar photovoltaic solar projects owned, leased or operated by Borrower or its Affiliates) and the expenses set forth in the Project Documents; *provided, however* that neither the Financial Model, nor the Assumptions set forth therein are to be viewed as facts and that actual results during the term of the Term Loan may differ from the Financial Model and that the differences may be material.

(t) Anti-Terrorism Laws. None of SolarCity, any Borrower Entity or Member (a) are named on any list of persons, entities, and governments issued by OFAC pursuant to Executive Order 13224 – Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as in effect on the date hereof, or any similar list issued by OFAC (collectively, the "OFAC Lists"); (b) are persons or entities determined by the Secretary of the Treasury pursuant to Executive Order 13224 to be owned by, controlled by, acting for or on behalf of, providing assistance, support, sponsorship, or services of any kind to, or otherwise associated with any of the persons or entities referred to or described in the OFAC Lists; or (c) to the best of Borrower's Knowledge, have conducted business with or engaged in any transaction with any person or entity identified in (a) or (b) above.

(u) Permits. All material Applicable Permits necessary for the operation, use and ownership of each Project, and all Permits necessary for the routine maintenance of each Project are either (i) in full force and effect and are not subject to any appeals or further proceedings or to any unsatisfied condition that may allow material modification or revocation or (ii) of a type that would not normally be obtained before such Permit is required. No Borrower Entity is in violation of any Applicable Permit which violation could reasonably be expected to have a Material Adverse Effect on any such Borrower Entity. To the Borrower's Knowledge, the operator of each Project possesses all material licenses, Permits, franchise, patents, copyrights, trademarks and trade names, or rights thereto necessary to perform its duties under the Operative Documents to which it is a party, and such party is not in material violation of any valid rights of others with respect to any of the foregoing.

(v) Hazardous Substances. To Borrower's Knowledge there are not (i) any past or existing violations of any Hazardous Substances Law by any Person relating in any way to any Project or (ii) any event, condition or circumstance that could reasonably be expected to form a basis for an Environmental Claim against any Project or any Borrower Entity with respect thereto.

ARTICLE 5

AFFIRMATIVE COVENANTS OF BORROWER

Borrower covenants and agrees that so long as this Agreement is in effect, it shall, unless the Lender (or if so specified, the Lender) waives compliance in writing:

5.1 Use of Proceeds. Use the proceeds of the Term Loan solely (a) acquire Investor's interests in the Master Tenants pursuant to the Sale Documents, (b) to pay down a portion of the outstanding principal of the Term Loan on the Closing Date and (c) to pay fees [***], costs and expenses as required under this Agreement.

5.2 Insurance. Maintain property insurance and business interruption insurance with respect to the PV Systems in accordance with prudent industry standards.

5.3 Notices. Promptly, upon acquiring notice or giving notice, as the case may be, or obtaining Borrower's Knowledge thereof, give written notice to the Lender of:

(a) Any litigation, action or proceeding pending or to the Borrower's Knowledge, threatened against any Borrower Entity or any Project, (i) involving claims against any Borrower Entity which could reasonably be expected to have a Material Adverse Effect, or (ii) instituted for the purpose of revoking, terminating, suspending, withdrawing, modifying or withholding any Applicable Permit which could reasonably be expected to have a Material Adverse Effect on any Borrower Entity;

(b) Any Default or Event of Default shall have occurred and be continuing;

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(c) Any casualty, damage or loss, whether or not insured, through fire, theft, other hazard or casualty, if such casualty, damage or loss affects Borrower or any Project, involving a probable loss in excess of Two Hundred Fifty Thousand Dollars ($250,000);

(d) Any matter which has, or could reasonably be expected to have, a Material Adverse Effect on any Borrower Entity or Member;

(e) Initiation of any condemnation proceedings involving any Project;

(f) With respect to all Projects, notice of any material event of default or termination given or received under any Project Document;

(g) Any claim of force majeure under any Project Documents related to any Project;

(h) Member or any Borrower Entity's adoption of or participation in any ERISA Plan, or intention to adopt or participate in any ERISA Plan;

(i) Any (i) fact, circumstance, condition or occurrence at, on, or arising from, any site for a Project, that results in material noncompliance with any Hazardous Substances Law, or any Release of Hazardous Substances on or from any such Project site, that has resulted in or could reasonably be expected to result in a Material Adverse Effect on any Borrower Entity, and (ii) pending or, to Borrower's Knowledge, threatened material Environmental Claim against Borrower or arising in connection with occupying or conducting operations on or at any Project which could reasonably be expected to have a Material Adverse Effect on any Borrower Entity.

(j) Any judgment affecting any Borrower Entity in excess of $250,000;

(k) Promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Borrower or compliance with the terms of this Agreement and the other Operative Documents that in each case is necessary to administer the Term Loan as the Lender may reasonably request.

5.4 Financial Statements.

(a) Deliver to the Lender:

(i) As soon as available but no later than thirty (30) days after the close of each calendar month, a Portfolio Report.

(ii) As soon as available but no later than forty-five (45) days after the close of each quarterly period of its fiscal year, quarterly (and year-to-date) unaudited consolidated financial statements of Borrower as of the end of such period, including a balance sheet and the related statement of income, stockholders' or member's equity and cash flows, in each case setting forth comparative figures for the previous dates and periods, to the extent available;

(iii) As soon as available but no later than one hundred and twenty (120) days after the close of each applicable fiscal year, (A) unqualified audited consolidated financial statements of Borrower and (B) consolidating financial statements of Borrower as of the end of such fiscal year including a balance sheet and the related statement of income, stockholders' or members' equity and cash flows, in each case setting forth comparative figures for the previous fiscal year, to the extent available; all prepared in accordance with GAAP and, in the case of Section 5.4(a)(ii)(A), certified by Novogradac & Company LLP. Such certificate shall not be qualified, or limited, because of restricted or limited examination by such accountant of any material portion of the records of the applicable Person; and

(iv) Each time the financial statements described in clauses (ii) and (iii) above are delivered under this Section 5.4, a certificate signed by an authorized Responsible Officer of the Borrower shall be delivered along with such financial statements, certifying that such Responsible Officer has made or caused to be made a review of the transactions and financial condition of the Borrower during the relevant fiscal period and that, to the knowledge of such Responsible Officer, no Default or Event of Default exists or if any such event or condition existed or exists, the nature thereof and the corrective actions that Borrower has taken or proposes to take with respect thereto.

5.5 Reports.

(a) Deliver to the Lender copies of any documents and reports furnished to any Borrower Entity by a Governmental Authority or by any counterparty to a Project Document for a Project, or furnished by any Borrower Entity to a Governmental Authority or such counterparty, in any case if the same could be reasonably expected to be material to Borrower or the Projects.

(b) Subject to Section 6.11, promptly after the execution and delivery thereof, Borrower shall furnish the Lender with copies of all amendments, supplements or modifications of any Project Documents.

5.6 Existence, Conduct of Business. Except as otherwise expressly permitted under this Agreement, (a) maintain and preserve its existence as a Delaware limited liability company, and all material rights, privileges and franchises necessary or desirable in the normal conduct of their respective businesses; (b) perform, and cause all other Borrower Entities to perform, all of the such Person's material contractual obligations under the Operative Documents and all other material agreements and contracts by which it is bound, maintain all Applicable Permits, which are necessary to conduct its business and to own, insure, operate and maintain its interest in the Projects in the manner contemplated by the Operative Documents; and (c) engage only in the business contemplated by the Operative Documents to which it is a party.

5.7 Books, Records, Access. Maintain books, accounts and records with respect to Borrower in accordance with GAAP and in material compliance with the regulations of any Governmental Authority having jurisdiction thereof, and permit employees, consultants, advisers or agents of Lender during normal business hours and at any hour if any Event of Default has occurred and is continuing and upon reasonable prior notice to Borrower to inspect all of Borrower's properties to examine or audit all of Borrower's books, accounts and records and make copies and memoranda thereof.

5.8 Preservation of Rights; Further Assurances.

(a) Preserve, protect and defend the material rights of each of the Borrower Entities under each and every Project Document related to any Project, including (where it is in the best interest of such Project in the judgment of Borrower) prosecution of suits to enforce any right of Borrower thereunder and enforcement of any claims with respect thereto.

(b) From time to time as reasonably requested by the Lender, execute, acknowledge, record, register, deliver and/or file all such notices, statements, instruments and other documents (including any financing statement, continuation statement, certificate of title or estoppel certificate) relating to the Term Loan and other Obligations of Borrower hereunder stating the interest and charges then due, and take such other steps as may be necessary or advisable to render fully valid and enforceable under all applicable laws the rights, Liens and priorities of the Lender with respect to the Collateral, in each case in such form and at such times as shall be reasonably satisfactory to the Lender.

5.9 Taxes and Other Government Charges. Pay, or cause to be paid, as and when due and prior to delinquency, all taxes, assessments and governmental charges of any kind that may at any time be lawfully assessed or levied against or with respect to any Borrower Entity. However, Borrower may contest in good faith any such taxes, assessments and other charges and, in such event, may permit the taxes, assessments or other charges so contested to remain unpaid during any period, including appeals, when Borrower is in good faith contesting the same, so long as, with respect to any such dispute (or aggregate pending disputes) in an amount greater than Two Hundred Fifty Thousand Dollars ($250,000), (a) adequate reserves to the extent required by GAAP have been established to the satisfaction of the Lender; (b) enforcement of the contested tax, assessment or other charge is effectively stayed for the entire duration of such contest; and (c) any tax, assessment or other charge determined to be due, together with any interest or penalties thereon, is paid when due after resolution of such contest.

5.10 Compliance With Laws, Instruments, Etc. Comply, or cause compliance, in all material respects, with all Legal Requirements applicable to any Borrower Entity; provided that Borrower may contest by appropriate proceedings conducted in good faith the validity or application of any such Legal Requirements, so long as neither Lender nor any Borrower Entity shall be subject to any criminal liability.

5.11 Permits. Maintain all Applicable Permits necessary for the operation of each Project. If an Applicable Permit is revoked or cancelled by the issuing agency or other Governmental Authority having jurisdiction and such revocation or cancellation could be reasonably like to result in a Material Adverse Effect on any Borrower Entity, replace such Applicable Permit with an analogous Applicable Permit within forty-five (45) days after such revocation or termination.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

5.12 Indemnification.

(a) Without duplication of Borrower's obligations under Section 2.3(d) or Section 2.4 (and excluding any items or events specifically excluded from Borrower's obligations thereunder), and subject to Section 5.12(b), Borrower shall indemnify, defend and hold harmless the Lender and its respective officers, directors, shareholders, controlling persons, employees, agents and servants (collectively, the "Indemnitees") from and against and reimburse the Indemnitees for:

(i) any and all claims, obligations, liabilities, losses, damages, injuries (to person, property, or natural resources), actions, suits, judgments, costs and expenses (including reasonable attorney's fees) of whatever kind or nature, demanded, asserted or claimed against any such Indemnitee by any third party in any way relating to, or arising out of or in connection with this Agreement and the other Financing Documents (collectively, "Claims"); and

(ii) any and all Claims asserted against any Indemnitee and arising in connection with the release or presence of any Hazardous Substances at any site of a Project, whether foreseeable or unforeseeable, including all costs of removal and disposal of such Hazardous Substances, all reasonable costs required by Governmental Authorities or under any Governmental Rule to be incurred in (A) determining whether such Projects are in compliance; and (B) causing such Projects to be in compliance, with all applicable Legal Requirements, all reasonable costs associated with claims for damages to persons or property, and reasonable attorneys' and consultants' fees and court costs, but excluding any such Claims arising after foreclosure by the Lender under the Financing Documents or attributable to acts or omissions of Lender or their agents thereafter.

(b) The foregoing indemnities shall not apply with respect to a Indemnitee, to the extent arising as a result of the gross negligence or willful misconduct of such as determined by a final non appealable judgment of a court of competent jurisdiction.

(c) The provisions of this Section 5.12 shall survive foreclosure under the Security Documents and the indefeasible satisfaction or discharge of Borrower's obligations (including the Obligations) hereunder, and shall be in addition to any other rights and remedies of the Lender.

(d) In case any action, suit or proceeding subject to the indemnity of this Section 5.12 shall be brought against any Indemnitee, such Indemnitee shall notify Borrower of the commencement thereof, and Borrower shall be entitled, at its expense, acting through counsel reasonably acceptable to such Indemnitee, to participate in, and, to the extent that Borrower desires, to assume and control the defense thereof. Such Indemnitee shall be entitled, at its expense, to participate in any action, suit or proceeding the defense of which has been assumed by Borrower. Notwithstanding the foregoing, Borrower shall not be entitled to assume and control the defenses of any such action, suit or proceedings if and to the extent that, in the reasonable opinion of such Indemnitee and its counsel, such action, suit or proceeding involves the potential imposition of criminal liability upon such Indemnitee or a potential or actual conflict of interest between such Indemnitee and Borrower, and in such event (other than with respect to disputes between such Indemnitee and another Indemnitee) Borrower shall pay the reasonable expenses of such Indemnitee in such defense; provided that Borrower shall not be required to pay any such expenses of more than one (1) counsel designated by the Indemnitee.

(e) Borrower shall deliver to such Indemnitee a copy of each material document in Borrower's possession or which Borrower is entitled to receive filed or served on any party in such action, suit or proceeding, and each material document which Borrower possesses relating to such action, suit or proceeding.

(f) Upon indefeasible payment of any Claim by Borrower pursuant to this Section 5.12, Borrower, without any further action, shall be subrogated to any and all claims that such Indemnitee may have relating thereto, and such Indemnitee shall cooperate with Borrower and give such further assurances as are necessary or advisable to enable Borrower vigorously to pursue such claims.

(g) Any amounts payable by Borrower pursuant to this Section 5.12 shall be payable on the date such amount is required to be paid by the applicable Indemnitee and in no event later than thirty (30) days after Borrower receives an invoice for such amounts from any applicable Indemnitee. If such amounts are not paid within such thirty (30) day period, then such amounts shall bear interest at the Default Rate.

5.13 Accounts. Borrower shall with respect to any Project, cause all Customer Payments, and all other Revenues to be deposited directly to the applicable Accounts. No Borrower Entity shall open or maintain any accounts other than the Accounts and the Local Account, except as permitted under Section 3.1(a) of the Collateral Agency and Depositary Agreement with respect to the Existing Bank Accounts, which accounts shall be closed immediately following the thirty (30) day period referenced therein. The aggregate balance in the Local Account shall not exceed $3000 and the amounts on deposit therein shall be used exclusively to refund amounts due to Host Customers under the Customer Agreements in accordance with the Collateral Agency and Depositary Agreement.

5.14 Compliance with Anti Terrorism Laws.

(a) Borrower hereby covenants and agrees that it will not conduct, and will not permit any Member or any other Borrower Entity to conduct, business with or engage in any transaction with any person or entity named on any of the OFAC Lists or any persons or entities determined and publicly announced by the Secretary of the Treasury pursuant to Executive Order 13224 to be owned by, controlled by, acting for or on behalf of, providing assistance, support, sponsorship, or services of any kind to, or otherwise associated with any of the persons or entities referred to or described in the OFAC Lists; provided that Borrower shall not have any liability under this provision arising out of the transactions with the Lender or its agents contemplated by this Agreement. Borrower hereby covenants and agrees that it will comply at all times with the requirements of all Anti-Terrorism Laws.

(b) Borrower hereby covenants and agrees that if it Borrower obtains Borrower's Knowledge or receives any written notice that Borrower, Member or any Affiliate thereof, is named on any of the OFAC Lists (such occurrence, an "OFAC Violation"), the Borrower will immediately (i) give written notice to the Lender of such OFAC Violation, and (ii) comply with all applicable Governmental Rules with respect to such OFAC Violation (regardless of whether the party included on any of the OFAC Lists is located within the jurisdiction of the United States of America), including, without limitation, the Anti-Terrorism Laws, and Borrower hereby authorizes and consents to the Lender taking any and all steps Lender deems necessary, in its sole discretion, to comply with all applicable Governmental Rules with respect to any such OFAC Violation, including, without limitation, the requirements of the Anti-Terrorism Laws (including the "freezing" and/or "blocking" of assets).

5.15 Separateness Provisions. Borrower shall comply, and shall cause the Borrower Entities and Member to comply with the provisions set forth on Schedule 5.15.

5.16 Backup Servicer. Borrower shall enter into an Accession Agreement no later than February 8, 2013.

5.17 Interest Rate Cap. Borrower shall enter into the Interest Rate Cap no later than February 28, 2013.

5.18 [***]. [***].

5.19 [***]. [***].

ARTICLE 6

NEGATIVE COVENANTS OF BORROWER

Borrower covenants and agrees that, so long as this Agreement is in effect, it shall not, and shall not permit any other Borrower Entity to, without the prior written consent of the Lender:

6.1 Contingent Liabilities. Become liable as a surety, guarantor, accommodation endorser or otherwise, for or upon the obligation of any other Person, provided, however, that this Section 6.1 shall not be deemed to prohibit (a) the acquisition of goods, supplies or merchandise in the normal course of business on normal trade credit; or (b) the endorsement of negotiable instruments received in the normal course of its business.

6.2 Limitations on Liens. (a) Create or assume any Lien on any Collateral, whether now owned or hereafter acquired, except for Permitted Liens or (b) suffer to exist any Lien on any of its property, whether now owned or hereafter acquired, except for Permitted Liens.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

6.3 Indebtedness. Incur, create, assume or permit to exist any Debt except for the Term Loan and the other Obligations under the Financing Documents.

6.4 Sale or Lease of Assets. Sell, lease, assign, transfer or otherwise dispose of assets, whether now owned or hereafter acquired (a) except in the ordinary course of its business or as contemplated by the Operative Documents and Customer Agreements (and provided any sale proceeds received pursuant to a Customer Buyout are used to prepay the Term Loan in accordance with Section 2.1(f)(ii)), and (b) except for obsolete, worn out or replaced property not used or useful in its business or any Project which has been released from the Collateral pursuant to Section 2.8 hereof.

6.5 Changes. Change the nature of its business or expand its respective business beyond the business contemplated in the Operative Documents.

6.6 Distributions. Directly or indirectly, make or declare any dividend or other distribution (in cash, property or obligation) on, or other payment on account of, any interest in Borrower or any payment of principal or interest in respect of the Term Loan or Debt to a Person.

6.7 Investments. Make or permit to remain outstanding any advances or loans or extensions of credit to, or purchase, redeem or own any stock, bonds, notes, debentures or other securities, other ownership interests or Equity Rights of any Person, except for investments in the Projects as contemplated in the Project Documents, Permitted Investments and as otherwise contemplated by the Operative Documents.

6.8 Regulations. Apply any part of the proceeds of the Term Loan or Revenues or any other amounts received by the Borrower as a result of owning a Project to the purchasing or carrying of any margin stock within the meaning of Regulations T, U or X of the Federal Reserve Board, or any regulations, interpretations or rulings thereunder.

6.9 Revenues. Use, pay, transfer, distribute or dispose of any Revenues, except as contemplated by the Financing Documents.

6.10 Dissolution. Liquidate or dissolve, or sell or lease or otherwise transfer or dispose of, all or any substantial part of its respective property, assets or business, or combine, merge or consolidate with or into any other entity other than a Borrower Entity; provided, however, that each Borrower Entity may sell, or otherwise dispose of assets as permitted by Section 6.4.

6.11 Amendments. Borrower shall not (i) terminate or cancel, (ii) agree to any increase in expenses under, or (iii) waive any default under, or material breach of, or the performance of a material obligation by any other Person under any Project Document without first obtaining the prior written consent of the Lender.

6.12 Name and Location; Fiscal Year. Change its name, its principal place of business, or its fiscal year without providing the Lender at least thirty (30) days written notice.

6.13 Assignment. Assign its rights hereunder or under any of the Financing Documents or any other Project Document for a Project to any Person, except to the extent such rights have been released from the Collateral pursuant to Section 2.8 hereof or in respect of a Permitted Lien.

6.14 Transfer of Interest. [***] cause, make, suffer, permit or consent to any creation, sale, assignment or transfer of any ownership interest or other interest in any Borrower Entity.

6.15 Transfer of Customer Agreements. Cause, make, suffer, permit or consent to any sale, assignment or transfer of and Customer Agreement to any counterparty which does not satisfy the Minimum Credit Requirements; provided, however, in the case of the transfer of a Customer Agreement due to the death or the divorce of such Host Customer, there is no Minimum Credit Requirement.

ARTICLE 7

EVENTS OF DEFAULT; REMEDIES

7.1 Borrower Events of Default. The occurrence of any of the following events shall constitute an event of default (individually, an "Event of Default," and collectively, the "Events of Default") hereunder:

(a) Failure to Make Payments. Borrower shall fail to pay, in accordance with the terms of this Agreement, (i) any payments of principal required under Section 2.1(c) or mandatory prepayments payable under Section 2.1(g)(ii), with respect to the Term Loan, in each case within two (2) Business Days after the date that such sum is due, or (ii) any interest on the Term Loan, or any other fee, cost, charge or other sum due under this Agreement, within three (3) days after the date that such sum is due.

(b) Judgments. A final judgment or judgments for the payment of money (if such payments are not covered by insurance or by a surety bond satisfactory to the Lender) shall be entered against any Borrower Entity in the aggregate amount of Two Hundred Fifty Thousand Dollars ($250,000) or more (other than (i) a judgment which is discharged within thirty (30) days after its entry, or (ii) a judgment, the execution of which is effectively stayed within thirty (30) days after its entry but only for thirty (30) days after the date on which such stay is terminated or expires) or which could be reasonably expected to result in a Material Adverse Effect on the Borrower; provided, however, that any such judgment or order shall not be (and shall not constitute part of) an Event of Default under this Section 7.1 if and for so long as (i) within thirty (30) days of the judgment being entered, the amount of such judgment order is covered by a valid and binding policy of insurance or by a surety bond between the defendant and the insurer covering payment thereof and (ii) such insurer or surety has been notified of, and has accepted the claim made for payment of, the amount of such judgment or order.

(c) Misstatements. Any (i) representation or warranty made by any Borrower Entity, SolarCity or Member in the Financing Documents, any amendment or modification thereof or waiver thereto, or any financial statement furnished pursuant thereto or (ii) certificate made or prepared by, under the control of or on behalf of Borrower and furnished to the Lender pursuant to this Agreement or any other Financing Document, in each such case, shall contain an untrue or misleading statement of a material fact as of the date such statement was made or certificate was so dated, as applicable, and Borrower knew such statement to be untrue or misleading.

(d) Bankruptcy; Insolvency. Any Borrower Entity shall become subject to a Bankruptcy Event.

(e) Breach of Financing Documents.

(i) Borrower shall fail to perform or observe any of the covenants set forth in Section 5.18, Section 5.19 or Article 6 hereof.

(ii) Any Borrower Entity or Member shall fail to perform or observe any other covenant to be performed or observed by it hereunder or under any Financing Document and not otherwise specifically provided for elsewhere in this Section 7.1(e), and such failure shall continue unremedied for a period of thirty (30) days.

(f) Security. Any of the Security Documents, once executed and delivered, shall, except as the result solely of the acts or omissions of the Lender or a Change of Law, fail to provide the Lender a first priority perfected security interest (subject only to Permitted Liens) in the Collateral, security interest, rights, titles, interest, remedies, powers or privileges intended to be created thereby or cease to be in full force and effect, or the validity thereof or the applicability thereof to the Term Loan, the Note, or any other obligations purported to be secured or guaranteed thereby or any part thereof shall be disaffirmed by or on behalf of any Borrower Entity, Member or any other party thereto or there shall occur a default or event of default (however defined) under any of the Security Documents.

(g) Change of Control. Any Borrower Entity or Member shall transfer all or a portion of equity interest in any of its or their respective Subsidiaries [***].

7.2 Remedies. Upon the occurrence and during the continuation of an Event of Default, the Lender may, and at its election shall, exercise any or all of the following rights and remedies (without further notice of default, presentment or demand for payment, protest or notice of non-payment or dishonor, or other notices or demands of any kind, all such notices and demands being waived), in any combination or order that the Lender may elect, in addition to such other rights or remedies as the Lender may have hereunder, under the Security Documents or at law or in equity:

(a) Cure by Lender. Without any obligation to do so, make disbursements to or on behalf of Borrower to cure any Event of Default hereunder and to cure any default and render any performance required of Borrower under any Project Documents as the Lender in its sole discretion may consider necessary or appropriate, whether to preserve and protect the Collateral or the Lender' interests therein or for any other reason, and all sums so expended, together with interest on such total amount at the Default Rate (but in no event shall the rate exceed the maximum lawful rate), shall be repaid by Borrower to the Lender on demand and shall be secured by the Financing Documents, notwithstanding that such expenditures may, together with amounts advanced under this Agreement, exceed the amount of the Commitment.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

(b) Acceleration. Declare and make all sums of accrued and outstanding principal and accrued but unpaid interest remaining under this Agreement together with all unpaid fees, costs, charges and amounts due hereunder or under any other Financing Document, immediately due and payable, provided that in the event of an Event of Default occurring under Section 7.1(d), all such amounts shall become immediately due and payable without further act of the Lender or any other Person.

(c) Cash Collateral. Apply or execute upon any amounts on deposit in any Account or any other moneys of any Borrower Entity on deposit with the Lender in the manner provided in the Collateral Agency and Depositary Agreement and the UCC and other relevant statutes and decisions and interpretations thereunder with respect to cash collateral.

(d) Foreclosure with respect to Collateral. Initiate foreclosure proceedings with respect the Collateral, in the manner provided in the Security Documents, the UCC and other relevant statutes and decisions and interpretations thereunder with respect to such Collateral.

ARTICLE 8

MISCELLANEOUS

8.1 Addresses. Any communications between the parties hereto or notices provided herein to be given may be given to the following addresses:

To Borrower:

City UB Solar, LLC
c/o SolarCity Corporation
3055 Clearview Way
San Mateo, CA 94402
Attention: General Counsel
Telephone: 650-638-1028
Fax No.: 650-638-1029
Email: legal@solarcity.com

To the Lender:

Union Bank, N.A.
445 S. Figueroa St., 15th Floor
Los Angeles, CA 90071
Attn: Portfolio Manager
Phone No.: 213-236-6444
Fax No.: 213-236-6460

All notices or other communications required or permitted to be given hereunder shall be in writing and shall be considered as properly given (a) if delivered in person; (b) if sent by a nationally recognized overnight delivery service; (c) in the event overnight delivery services are not readily available, if mailed by first class mail, postage prepaid, registered or certified with return receipt requested; or (d) if sent by electronic mail with a confirmation of receipt. Notice so given shall be effective upon receipt by the addressee, except that communication or notice so transmitted by electronic mail or other direct written electronic means shall be deemed to have been validly and effectively given on the day (if a Business Day and, if not, on the next following Business Day) on which it is transmitted if transmitted before 4 p.m., recipient's time, and if transmitted after that time, on the next following Business Day. Any party shall have the right to change its address for notice hereunder to any other location by giving of thirty (30) days' written notice to the other parties in the manner set forth hereinabove.

8.2 Additional Security; Right to Set-Off. Any deposits or other sums at any time credited or due from Lender and any sums, securities or other property of Borrower in the possession of the Lender may at all times be treated as collateral security for the payment of the Term Loan and the Note and all other obligations of Borrower to the Lender under this Agreement and the other Financing Documents, and Borrower hereby pledges to the Lender for the benefit of the Lender and grants the Lender a security interest and Lien in and to all such deposits, sums, securities or other property. Regardless of the adequacy of any other collateral, the Lender and only the Lender, may execute or realize on the Lender' security interest in any such deposits or other sums credited by or due from the Lender to Borrower, and may apply any such deposits or other sums to or set them off against Borrower's obligations to Lender under the Note and this Agreement at any time after the occurrence and during the continuance of any Event of Default.

8.3 Delay and Waiver. No delay or omission to exercise any right, power or remedy accruing to the Lender upon the occurrence of any Event of Default or any breach or default of Borrower under any other Financing Document shall impair any such right, power or remedy of the Lender, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring, nor shall any waiver of any single Event of Default or other breach or default be deemed a waiver of any other Event of Default or other breach or default theretofore or thereafter occurring. Any waiver, indulgence, permit, consent or approval of any kind or character on the part of the Lender of any Event of Default or other breach or default under this Agreement or any other Financing Document, or any waiver on the part of the Lender of any provision or condition of this Agreement or any other Financing Document, must be in a writing expressly referencing this Agreement and shall be effective only to the extent in such writing specifically set forth. All remedies, either under this Agreement or any other Financing Document or by law or otherwise afforded to the Lender, shall be cumulative and not exclusive.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

8.4 Costs, Expenses and Attorneys' Fees. Borrower shall, upon the execution of this Agreement and the making of the Term Loan, pay to the Lender all of its reasonable costs and expenses incurred in connection with the preparation, negotiation, closing and costs of administering this Agreement and the other Financing Documents contemplated hereby, including the reasonable fees, expenses and disbursements of Sidley Austin LLP and other attorneys retained by the Lender in connection with conducting due diligence with respect to the Projects and Borrower, the preparation of the Financing Documents and any amendments hereof or thereof, or the negotiation, closing and administration of this Agreement and the other Financing Documents after the Closing Date, and the reasonable fees, expenses and disbursements of any engineering, insurance or other consultants to the Lender incurred in connection with this Agreement, Financing Documents or the Term Loan or Commitment including any reasonable fees, expense and disbursements related to conducting due diligence with respect to the Projects and the Borrower, and the reasonable travel, out-of-pocket, telecommunication, filing and recording, due diligence, computer, duplication, messenger, printing, appraisal, audit and tombstone costs and expenses incurred by the Lender and its attorneys and consultants; *provided, however*, Borrower shall not be responsible for and shall not reimburse for such fees which in the aggregate are in excess of $70,000. Borrower shall reimburse the Lender for all costs and expenses, including all attorneys' fees, expended or incurred by the Lender in enforcing this Agreement or the other Financing Documents in connection with an Event of Default, in actions for declaratory relief in any way related to this Agreement, in collecting any sum which becomes due the Lender on the Note or under the Financing Documents.

8.5 Entire Agreement. This Agreement and any agreement, document or instrument attached hereto or referred to herein integrate all the terms and conditions mentioned herein or incidental hereto and supersede all oral negotiations and prior writings in respect to the subject matter hereof. In the event of any conflict between the terms, conditions and provisions of this Agreement and any such agreement, document or instrument, the terms, conditions and provisions of this Agreement shall prevail. This Agreement and the other Financing Documents may only be amended or modified by an instrument in writing signed by Borrower, the Lender and any other parties to be charged and in accordance with the terms of this Agreement.

8.6 Governing Law. THIS AGREEMENT, AND ANY INSTRUMENT OR AGREEMENT REQUIRED HEREUNDER (TO THE EXTENT NOT EXPRESSLY PROVIDED FOR THEREIN), SHALL BE GOVERNED BY, AND CONSTRUED UNDER, THE LAWS OF THE STATE OF NEW YORK, APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN SUCH STATE AND WITHOUT REFERENCE TO CONFLICTS OF LAWS.

8.7 Severability. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby, and the parties hereto shall enter into good faith negotiations to replace the invalid, illegal or unenforceable provision.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

8.8 Headings. Paragraph headings and a table of contents have been inserted in this Agreement as a matter of convenience for reference only and it is agreed that such paragraph headings are not a part of this Agreement and shall not be used in the interpretation of any provision of this Agreement.

8.9 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and practices consistent with those applied in the preparation of the financial statements submitted by Borrower to the Lender, and (unless otherwise indicated) all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles and practices.

8.10 Additional Financing. The parties hereto acknowledge that the Lender has made no agreement or commitment to provide any financing except as set forth herein.

8.11 No Partnership, Etc. The Lender and Borrower intend that the relationship between them shall be solely that of creditor and debtor. Nothing contained in this Agreement, the Note or in any of the other Financing Documents shall be deemed or construed to create a partnership, tenancy-in-common, joint tenancy, joint venture or co-ownership by or between or among the Lender and Borrower or any other Person. The Lender shall not be in any way responsible or liable for the debts, losses, obligations or duties of Borrower or any other Person with respect to the Projects or otherwise. All obligations to pay real property or other taxes, assessments, insurance premiums, and all other fees and charges arising from the ownership, operation or occupancy of the Projects and to perform all obligations under other agreements and contracts relating to the Projects shall be the sole responsibility of Borrower.

8.12 Limitation on Liability. NO CLAIM SHALL BE MADE BY ANY PARTY HERETO OR ANY OF ITS AFFILIATES, DIRECTORS, EMPLOYEES, ATTORNEYS OR AGENTS AGAINST ANY OTHER PARTY HERETO OR ANY OF ITS AFFILIATES, DIRECTORS, EMPLOYEES, ATTORNEYS OR AGENTS FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES (WHETHER OR NOT THE CLAIM THEREFOR IS BASED ON CONTRACT, TORT, DUTY IMPOSED BY LAW OR OTHERWISE), IN CONNECTION WITH, ARISING OUT OF OR IN ANY WAY RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR THE OTHER FINANCING DOCUMENTS OR ANY ACT OR OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH; AND EACH PARTY HEREBY WAIVES, RELEASES AND AGREES NOT TO SUE UPON ANY SUCH CLAIM FOR ANY SUCH SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER OR NOT ACCRUED AND WHETHER OR NOT KNOWN OR SUSPECTED TO EXIST IN ITS FAVOR.

8.13 Waiver of Jury Trial. THE LENDER AND BORROWER HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER FINANCING DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF ANY AGENT, THE LENDER OR BORROWER. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER TO ENTER INTO THIS AGREEMENT.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

8.14 Consent to Jurisdiction. The Lender and Borrower agree that any legal action or proceeding by or against Borrower or with respect to or arising out of this Agreement, the Note or any other Financing Document may be brought in or removed to the state or federal district courts of the State of New York, as the Lender may elect. By execution and delivery of the Agreement, the Lender and Borrower accept, for themselves and in respect of their property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Lender and Borrower irrevocably consent to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified airmail, postage prepaid, to the Lender or Borrower, as the case may be, at their respective addresses for notices as specified herein and that such service shall be effective five (5) Business Days after such mailing. Nothing herein shall affect the right to serve process in any other manner permitted by law or the right of the Lender to bring legal action or proceedings in any other competent jurisdiction, including judicial or non-judicial foreclosure of any deed of trust. The Lender and Borrower further agree that the aforesaid courts of the State of New York and of the United States of America shall have exclusive jurisdiction with respect to any claim or counterclaim of Borrower based upon the assertion that the rate of interest charged by the Lender on or under this Agreement, the Term Loan and/or the other Financing Documents is usurious. The Lender and Borrower hereby waive any right to stay or dismiss any action or proceeding under or in connection with any or all of the Projects, this Agreement or any other Financing Document brought before the foregoing courts on the basis of forum non conveniens.

8.15 Usury. Nothing contained in this Agreement or the Note shall be deemed to require the payment of interest or other charges by Borrower or any other Person in excess of the amount which the holders of the Note may lawfully charge under any applicable usury laws. In the event that the holders of the Note shall collect moneys which are deemed to constitute interest which would increase the effective interest rate to a rate in excess of that permitted to be charged by applicable law, all such sums deemed to constitute interest in excess of the legal rate shall, upon such determination, at the option of the holder of the Note, be returned to Borrower or credited against the principal balance of the Note then outstanding.

8.16 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns. Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of the Lender. Lender may assign or participate its rights in, to and under this Agreement (a) at any time to any of its Affiliates, without the consent of the Borrower, (b) to any other Person with the prior written consent of the Borrower (such consent not to be unreasonably withheld), unless an Event of Default has occurred and is continuing, in which case Borrower's consent is not required.

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

8.17 Patriot Act Compliance. The Lender hereby notifies Borrower that, pursuant to the requirements of the Patriot Act, it shall be required to obtain, verify and record information that identifies Borrower, which information includes the names and addresses and other information that will allow it to identify Borrower in accordance with the requirements of the Patriot Act. Borrower shall promptly deliver information described in the immediately preceding sentence when requested by the Lender in writing pursuant to the requirements of the Patriot Act.

8.18 Counterparts. This Agreement may be executed in one or more duplicate counterparts and by facsimile or other electronic transmission and when signed by all of the parties listed below shall constitute a single binding agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

IN WITNESS WHEREOF, the parties have caused this Loan Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CITY UB SOLAR, LLC, a Delaware limited liability company, as Borrower

By: /s/ Peter Rive
Name: Peter Rive
Title: Chief Operating Officer

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

UNION BANK, N.A., a national banking association, as Lender

By: /s/ Rita H. Dailey
Name: Rita H. Dailey
Title: SVP

[***] Confidential treatment has been requested for the bracketed portions. The confidential redacted portion has been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Lyndon R. Rive, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of SolarCity Corporation;

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)) 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) 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

c) 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 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.

/s/ Lyndon R. Rive
Lyndon R. Rive
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2013

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Robert D. Kelly, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of SolarCity Corporation;

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)) 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) 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

c) 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 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.

/s/ Robert D. Kelly
Robert D. Kelly
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 15, 2013

Exhibit 32.1

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

I, Lyndon R. Rive, 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 SolarCity Corporation for the quarterly period ended March 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of SolarCity Corporation.

/s/ Lyndon R. Rive
Lyndon R. Rive
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2013

Exhibit 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

I, Robert D. Kelly, 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 SolarCity Corporation for the quarterly period ended March 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of SolarCity Corporation.

/s/ Robert D. Kelly
Robert D. Kelly
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 15, 2013