

**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 **June 30, 2020**
OR

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

Commission File Number: **001-37511**

Sunrun Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-2841711
(I.R.S. Employer
Identification No.)

225 Bush Street, Suite 1400
San Francisco, California 94104
(Address of principal executive offices and Zip Code)

(415) 580-6900
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	RUN	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of August 6, 2020, the number of shares of the registrant's common stock outstanding was 123,174,691.

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Sunrun Inc.
Consolidated Balance Sheets
(In Thousands, Except Share Par Values)
(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 269,569	\$ 269,577
Restricted cash	84,515	93,504
Accounts receivable (net of allowances for doubtful accounts of \$ 2,337 and \$3,151 as of June 30, 2020 and December 31, 2019, respectively)	60,000	77,728
State tax credits receivable	—	6,466
Inventories	210,507	260,571
Prepaid expenses and other current assets	13,649	25,984
Total current assets	638,240	733,830
Restricted cash	148	148
Solar energy systems, net	4,774,425	4,492,615
Property and equipment, net	47,839	56,708
Intangible assets, net	16,892	19,543
Goodwill	95,094	95,094
Other assets	432,404	408,403
Total assets ⁽¹⁾	\$ 6,005,042	\$ 5,806,341
Liabilities and total equity		
Current liabilities:		
Accounts payable	\$ 99,895	\$ 223,356
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	17,751	16,062
Accrued expenses and other liabilities	187,891	148,497
Deferred revenue, current portion	78,750	77,643
Deferred grants, current portion	8,274	8,093
Finance lease obligations, current portion	8,065	10,064
Non-recourse debt, current portion	105,381	35,348
Pass-through financing obligation, current portion	11,292	11,031
Total current liabilities	517,299	530,094
Deferred revenue, net of current portion	663,797	651,856
Deferred grants, net of current portion	213,956	218,568
Finance lease obligations, net of current portion	8,547	12,895
Recourse debt	236,435	239,485
Non-recourse debt, net of current portion	2,081,725	1,980,107
Pass-through financing obligation, net of current portion	326,278	327,974
Other liabilities	227,984	141,401
Deferred tax liabilities	36,834	65,964
Total liabilities ⁽¹⁾	4,312,855	4,168,344
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	450,682	306,565
Stockholders' equity:		
Preferred stock, \$0.0001 par value—authorized, 200,000 shares as of June 30, 2020 and December 31, 2019; no shares issued and outstanding as of June 30, 2020 and December 31, 2019	—	—
Common stock, \$0.0001 par value—authorized, 2,000,000 shares as of June 30, 2020 and December 31, 2019; issued and outstanding, 122,307 and 118,451 shares as of June 30, 2020 and December 31, 2019, respectively	12	12
Additional paid-in capital	806,702	766,006
Accumulated other comprehensive loss	(127,264)	(52,753)
Retained earnings	208,717	251,466
Total stockholders' equity	888,167	964,731
Noncontrolling interests	353,338	366,701
Total equity	1,241,505	1,331,432
Total liabilities, redeemable noncontrolling interests and total equity	\$ 6,005,042	\$ 5,806,341

- 1) The Company's consolidated assets as of June 30, 2020 and December 31, 2019 include \$3,948,923 and \$3,521,202, respectively, in assets of variable interest entities ("VIEs") that can only be used to settle obligations of the VIEs. These assets include solar energy systems, net, as of June 30, 2020 and December 31, 2019 of \$3,557,831 and \$3,259,712, respectively; cash as of June 30, 2020 and December 31, 2019 of \$155,239 and \$133,362, respectively; restricted cash as of June 30, 2020 and December 31, 2019 of \$12,411 and \$2,746, respectively; accounts receivable, net as of June 30, 2020 and December 31, 2019 of \$25,530 and \$21,956, respectively; inventories as of June 30, 2020 and December 31, 2019 of \$94,175 and \$15,721, respectively; prepaid expenses and other current assets as of June 30, 2020 and December 31, 2019 of \$1,480 and \$554, respectively; and other assets as of June 30, 2020 and December 31, 2019 of \$102,257 and \$87,151, respectively. The Company's consolidated liabilities as of June 30, 2020 and December 31, 2019 include \$894,449 and \$774,564, respectively, in liabilities of VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable as of June 30, 2020 and December 31, 2019 of \$14,306 and \$11,531, respectively; distributions payable to noncontrolling interests and redeemable noncontrolling interests as of June 30, 2020 and December 31, 2019 of \$17,701 and \$16,012, respectively; accrued expenses and other current liabilities as of June 30, 2020 and December 31, 2019 of \$14,095 and \$10,740, respectively; deferred revenue as of June 30, 2020 and December 31, 2019 of \$506,486 and \$482,138, respectively; deferred grants as of June 30, 2020 and December 31, 2019 of \$27,516 and \$28,034, respectively; non-recourse debt as of June 30, 2020 and December 31, 2019 of \$277,416 and \$206,476, respectively; and other liabilities as of June 30, 2020 and December 31, 2019 of \$36,929 and \$19,633, respectively.

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

Sunrun Inc.
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue:				
Customer agreements and incentives	\$ 106,095	\$ 92,439	\$ 205,219	\$ 192,289
Solar energy systems and product sales	75,199	112,156	186,806	206,810
Total revenue	181,294	204,595	392,025	399,099
Operating expenses:				
Cost of customer agreements and incentives	83,422	70,594	161,699	140,087
Cost of solar energy systems and product sales	63,746	86,348	155,344	164,147
Sales and marketing	69,701	70,038	139,971	125,991
Research and development	4,971	6,555	9,017	12,029
General and administrative	41,756	33,044	69,830	62,107
Amortization of intangible assets	1,167	814	2,650	1,707
Total operating expenses	264,763	267,393	538,511	506,068
Loss from operations	(83,469)	(62,798)	(146,486)	(106,969)
Interest expense, net	50,721	42,309	100,645	83,649
Other expenses, net	148	1,388	98	6,144
Loss before income taxes	(134,338)	(106,495)	(247,229)	(196,762)
Income tax expense (benefit)	211	(1,910)	(3,131)	(5,271)
Net loss	(134,549)	(104,585)	(244,098)	(191,491)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(120,987)	(103,292)	(202,577)	(176,336)
Net loss attributable to common stockholders	\$ (13,562)	\$ (1,293)	\$ (41,521)	\$ (15,155)
Net loss per share attributable to common stockholders				
Basic	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)
Diluted	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)
Weighted average shares used to compute net loss per share attributable to common stockholders				
Basic	120,279	115,765	120,201	114,843
Diluted	120,279	115,765	120,201	114,843

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

Sunrun Inc.
Consolidated Statements of Comprehensive Loss
(In Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss attributable to common stockholders	\$ (13,562)	\$ (1,293)	\$ (41,521)	\$ (15,155)
Other comprehensive (loss) income:				
Unrealized loss on derivatives, net of income taxes	(2,632)	(26,109)	(75,175)	(43,122)
Interest income (expense) on derivatives recognized into earnings, net of income taxes	419	21	664	(968)
Other comprehensive loss	(2,213)	(26,088)	(74,511)	(44,090)
Comprehensive loss	<u>\$ (15,775)</u>	<u>\$ (27,381)</u>	<u>\$ (116,032)</u>	<u>\$ (59,245)</u>

Sunrun Inc.
Consolidated Statements of Redeemable Noncontrolling Interests and Equity
Three Months Ended June 30, 2020 and 2019
(In Thousands)
(Unaudited)

Three Months Ended June 30, 2020											
	Redeemable Noncontrolling Interests	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
		Shares	Amount	Shares	Amount						
Balance at March 31, 2020	\$ 415,693	—	\$ —	120,123	\$ 12	\$ 775,233	\$ (125,051)	\$ 222,279	\$ 872,473	\$ 326,191	\$ 1,198,664
Exercise of stock options	—	—	—	388	—	2,709	—	—	2,709	—	2,709
Issuance of restricted stock units	—	—	—	1,467	—	2,504	—	—	2,504	—	2,504
Shares issued in connection with the Employee Stock Purchase Plan	—	—	—	329	—	3,737	—	—	3,737	—	3,737
Stock-based compensation	—	—	—	—	—	22,519	—	—	22,519	—	22,519
Contributions from noncontrolling interests and redeemable noncontrolling interests	169,048	—	—	—	—	—	—	—	—	34,997	34,997
Distributions to noncontrolling interests and redeemable noncontrolling interests	(8,013)	—	—	—	—	—	—	—	—	(12,909)	(12,909)
Net (loss) income	(126,046)	—	—	—	—	—	—	(13,562)	(13,562)	5,059	(8,503)
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(2,213)	—	(2,213)	—	(2,213)
Balance at June 30, 2020	\$ 450,682	—	\$ —	122,307	\$ 12	\$ 806,702	\$ (127,264)	\$ 208,717	\$ 888,167	\$ 353,338	\$ 1,241,505

Three Months Ended June 30, 2019											
	Redeemable Noncontrolling Interests	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
		Shares	Amount	Shares	Amount						
Balance at March 31, 2019	\$ 137,616	—	\$ —	114,739	\$ 11	\$ 730,126	\$ (21,866)	\$ 216,269	\$ 924,540	\$ 377,571	\$ 1,302,111
Exercise of stock options	—	—	—	1,642	—	10,938	—	—	10,938	—	10,938
Issuance of restricted stock units, net of tax withholdings	—	—	—	232	—	(2,732)	—	—	(2,732)	—	(2,732)
Shares issued in connection with the Employee Stock Purchase Plan	—	—	—	586	—	3,397	—	—	3,397	—	3,397
Stock-based compensation	—	—	—	—	—	6,783	—	—	6,783	—	6,783
Contributions from noncontrolling interests and redeemable noncontrolling interests	170,164	—	—	—	—	—	—	—	—	7,998	7,998
Distributions to noncontrolling interests and redeemable noncontrolling interests	(3,552)	—	—	—	—	—	—	—	—	(14,424)	(14,424)
Net loss	(25,689)	—	—	—	—	—	—	(1,293)	(1,293)	(77,603)	(78,896)
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(26,088)	—	(26,088)	—	(26,088)
Balance at June 30, 2019	\$ 278,539	—	\$ —	117,199	\$ 11	\$ 748,512	\$ (47,954)	\$ 214,976	\$ 915,545	\$ 293,542	\$ 1,209,087

Sunrun Inc.
Consolidated Statements of Redeemable Noncontrolling Interests and Equity
Six Months Ended June 30, 2020 and 2019
(In Thousands)
(Unaudited)

	Redeemable Noncontrolling Interests	Six Months Ended June 30, 2020									
		Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
		Shares	Amount	Shares	Amount						
Balance at December 31, 2019	\$ 306,565	—	\$ —	118,451	\$ 12	\$ 766,006	\$ (52,753)	\$ 251,466	\$ 964,731	\$ 366,701	\$ 1,331,432
Cumulative effect of adoption of new ASU (No. 2016-13)	—	—	—	—	—	—	—	(1,228)	(1,228)	—	(1,228)
Exercise of stock options	—	—	—	1,397	—	8,658	—	—	8,658	—	8,658
Issuance of restricted stock units, net of tax withholdings	—	—	—	2,130	—	(1,026)	—	—	(1,026)	—	(1,026)
Shares issued in connection with the Employee Stock Purchase Plan	—	—	—	329	—	3,737	—	—	3,737	—	3,737
Stock-based compensation	—	—	—	—	—	29,327	—	—	29,327	—	29,327
Contributions from noncontrolling interests and redeemable noncontrolling interests	319,952	—	—	—	—	—	—	—	—	54,997	54,997
Distributions to noncontrolling interests and redeemable noncontrolling interests	(15,097)	—	—	—	—	—	—	—	—	(26,521)	(26,521)
Net loss	(160,738)	—	—	—	—	—	—	(41,521)	(41,521)	(41,839)	(83,360)
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(74,511)	—	(74,511)	—	(74,511)
Balance at June 30, 2020	\$ 450,682	—	\$ —	122,307	\$ 12	\$ 806,702	\$ (127,264)	\$ 208,717	\$ 888,167	\$ 353,338	\$ 1,241,505

	Redeemable Noncontrolling Interests	Six Months Ended June 30, 2019									
		Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
		Shares	Amount	Shares	Amount						
Balance at December 31, 2018	\$ 126,302	—	\$ —	113,149	\$ 11	\$ 722,429	\$ (3,124)	\$ 229,391	\$ 948,707	\$ 334,075	\$ 1,282,782
Cumulative effect of adoption of new ASU (No. 2018-02)	—	—	—	—	—	—	(740)	740	—	—	—
Exercise of stock options	—	—	—	2,781	—	15,216	—	—	15,216	—	15,216
Issuance of restricted stock units, net of tax withholdings	—	—	—	683	—	(6,173)	—	—	(6,173)	—	(6,173)
Shares issued in connection with the Employee Stock Purchase Plan	—	—	—	586	—	3,397	—	—	3,397	—	3,397
Stock-based compensation	—	—	—	—	—	12,566	—	—	12,566	—	12,566
Contributions from noncontrolling interests and redeemable noncontrolling interests	201,774	—	—	—	—	—	—	—	—	128,537	128,537
Distributions to noncontrolling interests and redeemable noncontrolling interests	(6,678)	—	—	—	—	—	—	—	—	(29,527)	(29,527)
Net loss	(42,859)	—	—	—	—	—	—	(15,155)	(15,155)	(133,477)	(148,632)
Acquisition of noncontrolling interest	—	—	—	—	—	1,077	—	—	1,077	(6,066)	(4,989)
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(44,090)	—	(44,090)	—	(44,090)
Balance at June 30, 2019	\$ 278,539	—	\$ —	117,199	\$ 11	\$ 748,512	\$ (47,954)	\$ 214,976	\$ 915,545	\$ 293,542	\$ 1,209,087

Sunrun Inc.
Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Operating activities:		
Net loss	\$ (244,098)	\$ (191,491)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization, net of amortization of deferred grants	103,015	89,019
Deferred income taxes	(3,131)	(5,271)
Stock-based compensation expense	29,327	12,566
Interest on pass-through financing obligations	11,773	12,378
Reduction in pass-through financing obligations	(19,258)	(19,702)
Other noncash items	20,301	6,714
Changes in operating assets and liabilities:		
Accounts receivable	15,128	(12,848)
Inventories	50,064	(10,362)
Prepaid and other assets	(14,345)	(49,771)
Accounts payable	(98,935)	(1,567)
Accrued expenses and other liabilities	(15,198)	1,525
Deferred revenue	13,104	112,195
Net cash used in operating activities	(152,253)	(56,615)
Investing activities:		
Payments for the costs of solar energy systems	(362,080)	(388,430)
Purchases of property and equipment, net	(2,337)	(13,950)
Net cash used in investing activities	(364,417)	(402,380)
Financing activities:		
Proceeds from state tax credits, net of recapture	6,219	2,329
Proceeds from issuance of recourse debt	43,475	55,000
Repayment of recourse debt	(46,525)	(62,965)
Proceeds from issuance of non-recourse debt	197,251	541,249
Repayment of non-recourse debt	(37,312)	(313,474)
Payment of debt fees	—	(7,462)
Proceeds from pass-through financing and other obligations	3,721	5,282
Early repayment of pass-through financing obligation	—	(7,597)
Payment of finance lease obligations	(5,545)	(6,445)
Contributions received from noncontrolling interests and redeemable noncontrolling interests	374,949	330,311
Distributions paid to noncontrolling interests and redeemable noncontrolling interests	(39,929)	(35,607)
Acquisition of noncontrolling interest	—	(4,600)
Proceeds from exercises of stock options, net of withholding taxes paid on restricted stock units	11,369	12,442
Net cash provided by financing activities	507,673	508,463
Net change in cash and restricted cash	(8,997)	49,468
Cash and restricted cash, beginning of period	363,229	304,399
Cash and restricted cash, end of period	\$ 354,232	\$ 353,867
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 56,766	\$ 37,782
Cash paid for income taxes	\$ —	\$ —
Supplemental disclosures of noncash investing and financing activities		
Purchases of solar energy systems and property and equipment included in accounts payable and accrued expenses	\$ 75,190	\$ 50,549
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 213	\$ 12,484

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

Sunrun Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Organization

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

Sunrun acquires customers directly and through relationships with various solar and strategic partners ("Partners"). The Projects are constructed either by Sunrun or by Sunrun's Partners and are owned by the Company. Sunrun's customers enter into an agreement to utilize the solar energy system ("Customer Agreement") which typically has an initial term of 20 or 25 years. Sunrun monitors, maintains and insures the Projects. The Company also sells solar energy systems and products, such as panels and racking and solar leads generated to customers.

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2019.

Beginning in the quarter ended March 31, 2020, a strain of coronavirus (COVID-19) has spread throughout the United States and at this point, the extent to which the coronavirus may impact operations of the Company is uncertain. The extent of the impact of the coronavirus on the Company's business and operations will depend on several factors, such as the duration, severity, and geographic spread of the outbreak. The Company is monitoring the evolving situation closely and evaluating its potential exposure. The results of the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2020 or other future periods, particularly in light of the uncertain impact COVID-19 could have on the Company's business.

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

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company regularly makes estimates and assumptions, including, but not limited to, revenue recognition constraints that result in variable consideration, the discount rate used to adjust the promised amount of consideration for the effects of a significant financing component, the estimates that affect the collectability of accounts receivable, the valuation of inventories, the useful lives of solar energy systems, the useful lives of property and equipment, the valuation and useful lives of intangible assets, the effective interest rate used to amortize pass-through financing obligations, the discount rate uses for operating and financing leases, the fair value of contingent consideration, the valuation of stock-based compensation, the determination of valuation allowances associated with deferred tax assets, the fair value of debt instruments disclosed and the redemption value of redeemable noncontrolling interests. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable. In light of the uncertain impact COVID-19 could have on the Company's business, the Company's estimates may change in the future. Actual results may differ from such estimates.

Segment Information

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Customer agreements	\$ 98,525	\$ 85,277	\$ 192,778	\$ 163,805
Incentives	7,570	7,162	12,441	28,484
Customer agreements and incentives	106,095	92,439	205,219	192,289
Solar energy systems	44,579	66,569	115,856	125,005
Products	30,620	45,587	70,950	81,805
Solar energy systems and product sales	75,199	112,156	186,806	206,810
Total revenue	\$ 181,294	\$ 204,595	\$ 392,025	\$ 399,099

Revenue from Customer Agreements includes payments by customers for the use of the system as well as utility and other rebates assigned by the customer to the Company in the Customer Agreement. Revenue from incentives includes revenue from the sale of commercial investment tax credits ("Commercial ITCs") and solar renewable energy credits ("SRECs").

Cash and Restricted Cash

Restricted cash represents amounts related to obligations under certain financing transactions and future replacement of solar energy system components.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows. Cash and restricted cash consists of the following (in thousands):

	Six Months Ended June 30,	
	2020	2019
Beginning of period:		
Cash	\$ 269,577	\$ 226,625
Restricted cash, current and long-term	93,652	77,774
Total	<u>\$ 363,229</u>	<u>\$ 304,399</u>
End of period:		
Cash	\$ 269,569	\$ 299,537
Restricted cash, current and long-term	84,663	54,330
Total	<u>\$ 354,232</u>	<u>\$ 353,867</u>

Accounts Receivable

Accounts receivable consist of amounts due from customers, as well as state and utility rebates due from government agencies and utility companies. Under Customer Agreements, the customers typically assign incentive rebates to the Company.

The opening balance of Accounts receivable, net was \$66.4 million as of December 31, 2018. Accounts receivable, net, consists of the following (in thousands):

	June 30, 2020	December 31, 2019
Customer receivables	\$ 58,201	\$ 79,899
Other receivables	968	23
Rebates receivable	3,168	957
Allowance for doubtful accounts	(2,337)	(3,151)
Total	<u>\$ 60,000</u>	<u>\$ 77,728</u>

Deferred Revenue

When the Company receives consideration, or when such consideration is unconditionally due, from a customer prior to delivering goods or services to the customer under the terms of a Customer Agreement, the Company records deferred revenue. Such deferred revenue consists of amounts for which the criteria for revenue recognition have not yet been met and includes amounts that are collected or assigned from customers, including upfront deposits and prepayments, and rebates. Deferred revenue relating to financing components represents the cumulative excess of interest expense recorded on financing component elements over the related revenue recognized to date and will eventually net to zero by the end of the initial term. Amounts received related to the sales of SRECs which have not yet been delivered to the counterparty are recorded as deferred revenue.

The opening balance of deferred revenue was \$591.6 million as of December 31, 2018. Deferred revenue consists of the following (in thousands):

	June 30, 2020	December 31, 2019
Under Customer Agreements:		
Payments received	\$ 560,828	\$ 558,630
Financing component balance	48,387	44,874
	<u>609,215</u>	<u>603,504</u>
Under SREC contracts:		
Payments received	128,429	122,680
Financing component balance	4,903	3,315
	<u>133,332</u>	<u>125,995</u>
Total	<u>\$ 742,547</u>	<u>\$ 729,499</u>

In the three months ended June 30, 2020 and 2019, the Company recognized revenue of \$ 20.3 million and \$ 15.5 million, respectively, and in the six months ended June 30, 2020 and 2019, the Company recognized revenue of \$37.7 million and \$29.5 million, respectively, from amounts included in deferred revenue at the beginning of the respective periods. Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized and includes deferred revenue as well as amounts that will be invoiced and recognized as revenue in future periods. Contracted but not yet recognized revenue was approximately \$7.1 billion as of June 30, 2020, of which the Company expects to recognize approximately 6% over the next 12 months. The annual recognition is not expected to vary significantly over the next 10 years as the vast majority of existing Customer Agreements have at least 10 years remaining, given that the average age of the Company's fleet of residential solar energy systems under Customer Agreements is less than four years due to the Company being formed in 2007 and having experienced significant growth in the last few years. The annual recognition on these existing contracts will gradually decline over the midpoint of the Customer Agreements over the following 10 years as the typical 20- or 25-year initial term expires on individual Customer Agreements.

Fair Value of Financial Instruments

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

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

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

Revenue Recognition

The Company recognizes revenue when control of goods or services is transferred to its customers, in an amount that reflects the consideration it expected to be entitled to in exchange for those goods or services.

Customer agreements and incentives

Customer agreements and incentives revenue is primarily comprised of revenue from Customer Agreements in which the Company provides continuous access to a functioning solar system and revenue from the sales of SRECs generated by the Company's solar energy systems to third parties.

The Company begins to recognize revenue on Customer Agreements when permission to operate ("PTO") is given by the local utility company or on the date daily operation commences if utility approval is not required. Revenue recognition does not necessarily follow the receipt of cash. The Company recognizes revenue evenly over the time that it satisfies its performance obligations over the initial term of the Customer Agreements. Customer Agreements typically have an initial term of 20 or 25 years. After the initial contract term, the Company's Customer Agreements typically automatically renew on an annual basis and the rate is initially set at up to a 10% discount to then-prevailing power prices.

SREC revenue arises from the sale of environmental credits generated by solar energy systems and is generally recognized upon delivery of the SRECs to the counterparty. For pass-through financing obligation Funds, the value attributable to the monetization of Commercial ITCs is recognized in the period a solar system is granted PTO - see Note 10, *Pass-through Financing Obligations*.

In determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money when the timing of payments provides it with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. When adjusting the promised amount of consideration for a significant financing component, the Company uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception and recognizes the revenue amount on a straight-line basis over the term of the Customer Agreement, and interest expense using the effective interest rate method.

Consideration from customers is considered variable due to the performance guarantee under Customer Agreements and liquidating damage provisions under SREC contracts in the event minimum deliveries are not achieved. Performance guarantees provide a credit to the customer if the system's cumulative production, as measured on various PTO anniversary dates, is below the Company's guarantee of a specified minimum. Revenue is recognized to the extent it is probable that a significant reversal of such revenue will not occur.

The Company capitalizes incremental costs incurred to obtain a contract in Other Assets in the consolidated balance sheets. These amounts are amortized on a straight-line basis over the term of the Customer Agreements, and are included in Sales and marketing in the consolidated statements of operations.

Solar energy systems and product sales

For solar energy systems sold to customers, the Company recognizes revenue when the solar energy system passes inspection by the authority having jurisdiction. The Company's installation projects are typically completed in less than 12 months.

Product sales consist of solar panels, racking systems, inverters, other solar energy products sold to resellers and customer leads. Product sales revenue is recognized at the time when control is transferred, upon shipment. Customer lead revenue, included in product sales, is recognized at the time the lead is delivered.

Taxes assessed by government authorities that are directly imposed on revenue producing transactions are excluded from solar energy systems and product sales.

Cost of Revenue

Customer agreements and incentives

Cost of revenue for customer agreements and incentives is primarily comprised of (1) the depreciation of the cost of the solar energy systems, as reduced by amortization of deferred grants, (2) solar energy system operations, monitoring and maintenance costs including associated personnel costs, and (3) allocated corporate overhead costs.

Solar energy systems and product sales

Cost of revenue for solar energy systems and non-lead generation product sales consist of direct and indirect material and labor costs for solar energy systems installations and product sales. Also included are engineering and design costs, estimated warranty costs, freight costs, allocated corporate overhead costs, vehicle depreciation costs and personnel costs associated with supply chain, logistics, operations management, safety and quality control. Cost of revenue for lead generations consists of costs related to direct-response advertising activities associated with generating customer leads.

Recently Issued and Adopted Accounting Standards

Accounting standards adopted January 1, 2019:

In February 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows companies to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The Company adopted ASU No. 2018-02 effective January 1, 2019, which resulted in an adjustment of \$0.7 million for the reclassification, as reflected in its consolidated statement of redeemable noncontrolling interests and equity. The Company uses the aggregate portfolio approach when reclassifying stranded tax effects from accumulated other comprehensive income.

Accounting standards adopted January 1, 2020:

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which replaces the current incurred loss impairment methodology with a current expected credit losses model. The amendment applies to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income as well as loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. The Company adopted ASU No. 2016-13 effective January 1, 2020, using a modified retrospective transition method, which resulted in a cumulative-effect adjustment of \$1.2 million for the establishment of a credit loss allowance for unbilled receivables related to Customer Agreements, as reflected in its consolidated statement of redeemable noncontrolling interests and stockholders' equity.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements as part of its disclosure framework project. Under this amendment, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. However, for Level 3 fair value measurements, disclosures around the range and weighted average used to develop significant unobservable inputs will be required. The Company adopted ASU No. 2018-13 effective January 1, 2020, and there was no impact to its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350, *Intangibles—Goodwill and Other*, to determine which implementation costs to capitalize as assets or expense as incurred. This ASU is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company prospectively adopted ASU No. 2018-15 effective January 1, 2020, and there was no adoption date impact to its consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810)*, Targeted Improvements to Related Party Guidance for Variable Interest Entities, which aligns the evaluation of decision-making fees under the variable interest entity guidance. Under this new guidance, in order to determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportionate basis. This ASU is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and must be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company adopted ASU No. 2018-17 effective January 1, 2020, and there was no impact to its consolidated financial statements.

Accounting standards to be adopted:

In November 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)*, which simplifies the accounting for income taxes, primarily by eliminating certain exceptions to the guidance in ASC 740. This ASU is effective for fiscal periods beginning after December 15, 2020. The Company is currently evaluating this guidance and the impact it may have on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates that are expected to be discontinued because of reference rate reform. This ASU is available for adoption as of the beginning of the interim period that includes March 12, 2020 through December 31, 2022, as contract modifications or hedging relationships entered into or evaluated after December 31, 2022 are excluded unless an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. For the Company's cash flow hedges in which the designated hedged risk is LIBOR or another rate that is expected to be discontinued, the Company has adopted the portion of the guidance that allows it to assert that it remains probable that the hedged forecasted transaction will occur. The Company is currently evaluating the remainder of this guidance and the impact it may have on the Company's consolidated financial statements.

Note 3. Fair Value Measurement

At June 30, 2020 and December 31, 2019, the carrying value of receivables, accounts payable, accrued expenses and distributions payable to noncontrolling interests approximates fair value due to their short-term nature and falls under the Level 2 hierarchy. The carrying values and fair values of debt instruments are as follows (in thousands):

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bank line of credit	\$ 236,435	\$ 236,435	\$ 239,485	\$ 239,485
Senior debt	774,451	775,765	625,519	626,023
Subordinated debt	551,042	585,204	513,938	524,581
Securitization debt	861,613	945,109	875,998	931,320
Total	\$ 2,423,541	\$ 2,542,513	\$ 2,254,940	\$ 2,321,409

At June 30, 2020 and December 31, 2019, the fair value of the Company's lines of credit, and certain senior, subordinated and SREC loans approximate their carrying values because their interest rates are variable rates that approximate rates currently available to the Company. At June 30, 2020 and December 31, 2019, the fair value of the Company's other debt instruments are based on rates currently offered for debt with similar maturities and terms. The Company's fair value of the debt instruments fell under the Level 2 hierarchy. These valuation approaches involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market.

At June 30, 2020 and December 31, 2019, financial instruments measured at fair value on a recurring basis, based upon the fair value hierarchy, are as follows (in thousands):

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Derivative liabilities:				
Interest rate swaps	\$ —	\$ 166,325	\$ —	\$ 166,325
Total	\$ —	\$ 166,325	\$ —	\$ 166,325
Contingent consideration:				
Contingent consideration	\$ —	\$ —	\$ 7,984	\$ 7,984
Total	\$ —	\$ —	\$ 7,984	\$ 7,984

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Derivative assets:				
Interest rate swaps	\$ —	\$ 683	\$ —	\$ 683
Total	\$ —	\$ 683	\$ —	\$ 683
Derivative liabilities:				
Interest rate swaps	\$ —	\$ 64,361	\$ —	\$ 64,361
Total	\$ —	\$ 64,361	\$ —	\$ 64,361
Contingent consideration:				
Contingent consideration:	\$ —	\$ —	\$ 11,809	\$ 11,809
Total	\$ —	\$ —	\$ 11,809	\$ 11,809

The above balances are recorded in other liabilities in the consolidated balance sheets, except for \$ 11.2 million as of June 30, 2020, which is recorded in accrued expenses and other liabilities.

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

The Company recorded contingent consideration in connection with a business combination that occurred in July 2019, which is dependent on the achievement of specified deployment milestones associated with the number of solar energy systems installed through 2022. The Company determined the fair value of the contingent consideration using a probability-weighted expected return methodology that considers the timing and probabilities of achieving these milestones and uses discount rates that reflect the appropriate cost of capital. Contingent consideration was valued with Level 3 inputs. The Company reassesses the valuation assumptions each reporting period, with any changes in the fair value accounted for in the consolidated statements of operations.

The change in the activity of Level 3 contingent consideration balance is as follows (in thousands):

Balance at December 31, 2019	\$	11,809
Change in fair value recognized in earnings within sales and marketing expense		(3,145)
Payable for solar systems that have met deployment milestones		(680)
Balance at June 30, 2020	\$	7,984

Note 4. Inventories

Inventories consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Raw materials	\$ 201,043	\$ 239,449
Work-in-process	9,464	21,122
Total	\$ 210,507	\$ 260,571

The Internal Revenue Service ("IRS") provided taxpayers a safe harbor opportunity to retain access to the pre-2020 30% tax credit amount through specific rules released in Notice 2018-59. The Company has sought to avail itself of the safe harbor in order to retain the 30% Commercial ITC that was available in 2019 with respect to approximately 500 MW of projects by incurring certain costs and taking title to equipment in 2019. As of June 30, 2020, there was approximately \$96.7 million related to the safe harbor program within raw materials.

Note 5. Solar Energy Systems, net

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

	June 30, 2020	December 31, 2019
Solar energy system equipment costs	\$ 4,829,551	\$ 4,510,677
Inverters	508,032	471,471
Total solar energy systems	5,337,583	4,982,148
Accumulated depreciation and amortization	(785,085)	(692,218)
Construction-in-progress	221,927	202,685
Total solar energy systems, net	\$ 4,774,425	\$ 4,492,615

All solar energy systems, including construction-in-progress, have been leased to or are subject to signed Customer Agreements with customers. The Company recorded depreciation expense related to solar energy systems of \$48.1 million and \$41.0 million for the three months ended June 30, 2020 and 2019, respectively, and \$94.5 million and \$80.4 million for the six months ended June 30, 2020 and 2019. The depreciation expense was reduced by the amortization of deferred grants of \$2.1 million and \$2.0 million for three months ended June 30, 2020 and 2019, respectively, and \$ 4.1 million and \$4.0 million for the six months ended June 30, 2020 and 2019, respectively.

Note 6. Other Assets

Other assets consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Costs to obtain contracts - customer agreements	\$ 292,640	\$ 268,964
Costs to obtain contracts - incentives	2,481	2,481
Accumulated amortization of costs to obtain contracts	(43,801)	(36,925)
Unbilled receivables, net	123,759	104,346
Operating lease right-of-use assets	30,515	34,678
Other assets	26,810	34,859
Total	\$ 432,404	\$ 408,403

The Company recorded amortization of costs to obtain contracts of \$ 3.5 million and \$2.9 million for the three months ended June 30, 2020 and 2019, respectively, and \$6.9 million and \$5.5 million for the six months ended June 30, 2020 and 2019, respectively, in Sales and marketing in the consolidated statements of operations.

The majority of unbilled receivables arise from fixed price escalators included in the Company's long-term Customer Agreements. The escalator is included in calculating the total estimated transaction value for an individual Customer Agreement. The total estimated transaction value is then recognized over the term of the Customer Agreement. The amount of unbilled receivables increases while cumulative billings for an individual Customer Agreement are less than the cumulative revenue recognized for that Customer Agreement. Conversely, the amount of unbilled receivables decreases when the actual cumulative billings becomes higher than the cumulative revenue recognized. At the end of the initial term of a Customer Agreement, the cumulative amounts recognized as revenue and billed to date are the same, therefore the unbilled receivable balance for an individual Customer Agreement will be zero. As a result of the adoption of ASU No. 2016-13, an allowance for credit loss on unbilled receivables was established as of January 1, 2020. The Company applies an estimated loss-rate in order to determine the current expected credit loss for unbilled receivables. The estimated loss-rate is determined by analyzing historical credit losses, residential first and second mortgage foreclosures and consumers' utility default rates, as well as current economic conditions. The Company reviews individual customer collection status of electricity billings to determine whether the unbilled receivables for an individual customer should be written off, including the possibility of a service transfer to a potential new homeowner.

The change in allowance for credit loss is as follows (in thousands):

Balance at January 1, 2020	\$	(1,228)
Provision for credit losses		(1,007)
Write-offs		775
Recoveries		—
Balance at June 30, 2020	\$	(1,460)

Note 7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Accrued employee compensation	\$ 40,993	\$ 38,750
Operating lease obligations	10,658	9,790
Accrued interest	12,264	13,048
Accrued professional fees	22,720	4,732
Other accrued expenses	101,256	82,177
Total	\$ 187,891	\$ 148,497

Note 8. Indebtedness

As of June 30, 2020, debt consisted of the following (in thousands, except percentages):

	Carrying Values, net of debt discount			Unused Borrowing Capacity ⁽²⁾	Interest Rate ⁽¹⁾	Maturity Date
	Current	Long Term	Total			
Recourse debt:						
Bank line of credit	\$ —	\$ 236,435	\$ 236,435	\$ —	3.49% - 4.87%	April 2022
Total recourse debt	—	236,435	236,435	—		
Non-recourse debt:						
Senior	31,426	743,025	774,451	—	2.42% - 5.61%	April 2022 - July 2027
Subordinated	45,782	505,260	551,042	—	6.00% - 10.50%	March 2023 - July 2030
Securitization Class A	27,673	824,983	852,656	—	3.61% - 5.31%	July 2024 - February 2055
Securitization Class B	500	8,457	8,957	—	5.38%	July 2024
Total non-recourse debt	105,381	2,081,725	2,187,106	—		
Total debt	\$ 105,381	\$ 2,318,160	\$ 2,423,541	\$ —		

(1) Reflects contractual, unhedged rates. See Note 9, *Derivatives* for hedge rates.

(2) Represents the additional amount the Company could borrow, if any, based on the state of its existing assets as of June 30, 2020. For a description of the amount of capital commitments the Company can draw from as it constructs new assets, please see Item 2. Management's Discussion and Analysis of Financial Conditions and Result of Operations, *Debt and Financing Fund Commitments*.

As of December 31, 2019, debt consisted of the following (in thousands, except percentages):

	Carrying Values, net of debt discount			Unused Borrowing Capacity	Interest Rate ⁽¹⁾	Maturity Date
	Current	Long Term	Total			
Recourse debt:						
Bank line of credit	\$ —	\$ 239,485	\$ 239,485	\$ —	5.09% - 5.38%	April 2022
Total recourse debt	—	239,485	239,485	—		
Non-recourse debt:						
Senior	8,020	617,499	625,519	14,639	3.94% - 5.61%	April 2022 - July 2027
Subordinated	—	513,938	513,938	—	6.93% - 10.80%	March 2023 - July 2030
Securitization Class A	26,838	839,981	866,819	—	3.61% - 5.31%	July 2024 - February 2055
Securitization Class B	490	8,689	9,179	—	5.38%	July 2024
Total non-recourse debt	35,348	1,980,107	2,015,455	14,639		
Total debt	\$ 35,348	\$ 2,219,592	\$ 2,254,940	\$ 14,639		

(1) Reflects contractual, unhedged rates. See Note 9, *Derivatives* for hedge rates.

Bank Line of Credit

The Company has outstanding borrowings under a syndicated working capital facility with banks for a total commitment of up to \$ 250.0 million. The working capital facility is secured by substantially all of the unencumbered assets of the Company, as well as ownership interests in certain subsidiaries of the Company. Loans under the facility bear interest at LIBOR +3.25% per annum or the Base Rate + 2.25% per annum. The Base Rate is the highest of the Federal Funds Rate +0.50%, the Prime Rate, or LIBOR + 1.00%.

Under the terms of the working capital facility, the Company is required to meet various restrictive covenants, such as the completion and presentation of audited consolidated financial statements, maintaining a minimum unencumbered liquidity of at least \$25.0 million at the end of each calendar month, maintaining quarter end liquidity of at least \$35.0 million, and maintaining a minimum interest coverage ratio of 3.00 or greater, measured quarterly as of the last day of each quarter. The Company was in compliance with all debt covenants as of June 30, 2020. As of June 30, 2020, the balance under this facility was \$236.4 million with a maturity date in April 2022.

Senior and Subordinated Debt Facilities

Each of the Company's senior and subordinated debt facilities contains customary covenants including the requirement to maintain certain financial measurements and provide lender reporting. Each of the senior and subordinated debt facilities also contain certain provisions in the event of default that entitle lenders to take certain actions including acceleration of amounts due under the facilities and acquisition of membership interests and assets that are pledged to the lenders under the terms of the senior and subordinated debt facilities. The facilities are non-recourse to the Company and are secured by net cash flows from Customer Agreements or inventories less certain operating, maintenance and other expenses that are available to the borrower after distributions to tax equity investors, where applicable. Under the terms of these facilities, the Company's subsidiaries pay interest and principal from the net cash flows available to the subsidiaries. The Company was in compliance with all debt covenants as of June 30, 2020.

As of June 30, 2020, certain subsidiaries of the Company had an outstanding balance of \$ 352.4 million on secured credit facilities that were syndicated with various lenders due in October 2024 and August 2029. The credit facilities totaled \$375.8 million and consisted of \$363.3 million in term loans, and a \$ 12.5 million revolving debt service reserve letter of credit facility. Term Loan A ("TLA") is a senior delayed draw term loan that bears interest at LIBOR +2.125% per annum for LIBOR loans or the Base Rate +1.125% per annum on Base Rate loans. Term Loan B ("TLB") is subordinated debt that bears interest at 9.25% per annum.

As of June 30, 2020, certain subsidiaries of the Company had an outstanding balance of \$ 178.4 million on senior secured credit facilities that were syndicated with various lenders due in April 2024. These facilities are subject to the National Grid project equity transaction. The credit facilities totaled \$202.0 million and consisted of a \$195.0 million senior delayed draw term loan facility and a \$ 7.0 million revolving debt service reserve letter of credit facility. Loans under the facility bear interest at LIBOR +2.25% per annum, for the initial four-year period for LIBOR loans or the Base Rate + 1.25% per annum for Base Rate Loans. The Base Rate is the highest of the Federal Funds Rate +0.50%, the Prime Rate, or LIBOR + 1.00%. The facilities are non-recourse to the Company and are secured by net cash flows from Customer Agreements and SRECs, less certain operating, maintenance and other expenses that are available to the borrower after distributions to tax equity investors. Prepayments are permitted under the delayed draw term loan facility.

As of June 30, 2020, certain subsidiaries of the Company had an outstanding balance of \$ 346.3 million on secured credit facilities agreements, as amended, with a syndicate of banks due in March 2023. The facilities totaled \$595.0 million and consisted of a revolving aggregation facility ("Aggregation Facility"), a term loan ("Term Loan") and a revolving debt service reserve letter of credit facility. Senior loans under the Aggregation Facility bear interest at LIBOR +2.50% per annum for the initial three-year revolving availability period, stepping up to LIBOR + 2.75% per annum in the following two-year period. The subordinated Term Loan bears interest at LIBOR +5.00% per annum for the first three-year period, stepping up to LIBOR + 6.50% per annum thereafter. Term Loan prepayment penalties range from 0% - 1% depending on the timing of prepayments.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 15.1 million on a term loan due in April 2022. The loan is secured by the assets and related net cash flow of this subsidiary and is non-recourse to the Company's other assets. Loans under this facility bear interest at 4.50% per annum.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 12.3 million on a secured, non-recourse loan agreement due in September 2022. The loan will be repaid through cash flows from a pass-through financing obligation arrangement previously entered into by the Company. The loan agreement contains customary covenants including the requirement to maintain certain financial measurements and provide lender reporting. The loan also contains certain provisions in the event of default that entitle the lender to take certain actions including acceleration of amounts due under the loan. Loans under this facility bear interest at LIBOR +2.25% per annum.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 128.5 million on a term loan due in January 2030. The loan is secured by the assets and related net cash flow of this subsidiary and is non-recourse to the Company's other assets. Loans under this facility bear interest at 10.50% per annum.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 64.1 million on a term loan due in July 2030. The loan is secured by the assets and related net cash flow of this subsidiary and is non-recourse to the Company's other assets. Loans under this facility bear interest between 2.00% - 3.25% plus 6.75% per annum.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$9.2 million on a term loan due in July 2027. The loan is secured by the assets and related net cash flow of this subsidiary and is non-recourse to the Company's other assets. Loans under this facility bear interest at 5.61% per annum.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 130.5 million on a term loan due in November 2025. The loan is secured by the assets and related net cash flow of this subsidiary and is non-recourse to the Company's other assets. Loans under this facility bear interest at LIBOR (at a 2.00% floor) + 6.75% per annum.

As of June 30, 2020, certain subsidiaries of the Company had an outstanding balance of \$ 88.8 million on secured credit facilities agreements with banks due in March 2024. The facilities totaled \$134.0 million and consisted of two revolving aggregation facilities ("Aggregation Facilities") and a revolving debt service reserve letter of credit facility. The senior loan under the Aggregation Facilities bear interest at LIBOR +3.00%. The subordinated loan under the Aggregation Facilities bears interest at LIBOR +9.00% per annum. These debt facilities are related to the Company's participation in the IRS's safe harbor program to retain access to the 30% Commercial ITC that was available in 2019.

Securitization Loans

Each of the Company's securitized loans contains customary covenants including the requirement to provide reporting to the indenture trustee and ratings agencies. Each of the securitized loans also contain certain provisions in the event of default which entitle the indenture trustee to take certain actions including acceleration of amounts due under the facilities and acquisition of membership interests and assets that are pledged to the lenders under the terms of the securitized loans. The facilities are non-recourse to the Company and are secured by net cash flows from Customer Agreements less certain operating, maintenance and other expenses that are available to the borrower after distributions to tax equity investors, where applicable. Under the terms of these loans, the Company's subsidiaries pay interest and principal from the net cash flows available to the subsidiaries. The Company was in compliance with all debt covenants as of June 30, 2020.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 81.6 million on solar asset-backed notes secured by associated customer contracts ("Solar Assets") held by a special purpose entity ("Issuer"). As of June 30, 2020 and December 31, 2019, these Solar Assets had a carrying value of \$153.7 million and \$157.6 million, respectively, and are included under solar energy systems, net, in the consolidated balance sheets. The notes were issued at a discount of 0.08%.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 297.9 million on solar asset-backed notes secured by net cash flows from Customer Agreements less certain operating, maintenance and other expenses that are available to the issuer after distributions to tax equity investors. The notes were issued at a discount of 1.47%. The assets and cash flows generated by the Solar Assets are not available to the other creditors of the Company, and the creditors of the Issuer, including the Note holders, have no recourse to the Company's other assets.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 181.2 million on solar asset-backed notes secured by net cash flows from Customer Agreements less certain operating, maintenance and other expenses that are available to the issuer. The notes were issued at a discount of 0.01%.

As of June 30, 2020, a subsidiary of the Company had an outstanding balance of \$ 300.9 million on solar asset-backed notes secured by net cash flows from Customer Agreements less certain operating, maintenance and other expenses that are available to the issuer. The notes were issued at a discount of 0.05%.

Note 9. Derivatives

Interest Rate Swaps

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

The interest rate swaps have been designated as cash flow hedges. The credit risk adjustment associated with these swaps is the risk of non-performance by the counterparties to the contracts. In the six months ended June 30, 2020, the hedge relationships on the Company's interest rate swaps have been assessed as highly effective as the critical terms of the interest rate swaps match the critical terms of the underlying forecasted hedged transactions. Accordingly, changes in the fair value of these derivatives are recorded as a component of accumulated other comprehensive income, net of income taxes. Changes in the fair value of these derivatives are subsequently reclassified into earnings, and are included in interest expense, net in the Company's statements of operations, in the period that the hedged forecasted transactions affects earnings.

All amounts in Accumulated other comprehensive income (loss) ("AOCI") in the consolidated statements of redeemable noncontrolling interests and equity relate to derivatives, refer to the consolidated statements of comprehensive (loss) income. The net (loss) gain on derivatives includes the tax effect of \$0.8 million and \$9.8 million for the three months ended June 30, 2020 and 2019, respectively, and \$ 27.2 million and \$ 15.9 million for the six months ended June 30, 2020 and 2019, respectively.

During the next 12 months, the Company expects to reclassify \$ 15.5 million of net losses on derivative instruments from accumulated other comprehensive income to earnings. There were no undesignated derivative instruments recorded by the Company as of June 30, 2020.

The Company's master netting and other similar arrangements allow net settlements under certain conditions. When those conditions are met, the Company presents derivatives at net fair value. As of June 30, 2020, the information related to these offsetting arrangements were as follows (in thousands):

Instrument Description	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets / Liabilities Included in the Consolidated Balance Sheet
Assets:			
Derivatives	\$ —	\$ —	\$ —
Liabilities:			
Derivatives	(166,325)	—	(166,325)
Total	<u>\$ (166,325)</u>	<u>\$ —</u>	<u>\$ (166,325)</u>

As of December 31, 2019 the information related to these offsetting arrangements were as follows (in thousands):

Instrument Description	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets / Liabilities Included in the Consolidated Balance Sheet
Assets:			
Derivatives	\$ 683	\$ (615)	\$ 68
Liabilities:			
Derivatives	(64,361)	615	(63,746)
Total	\$ (63,678)	\$ —	\$ (63,678)

At June 30, 2020, the Company had the following derivative instruments (dollars in thousands):

Type	Quantity	Effective Dates	Maturity Dates	Hedge Interest Rates	Notional Amount	Adjusted Net Fair Market Value
Interest rate swap	1	4/29/2016	8/31/2022	1.27% - 1.29%	\$ 10,676	\$ (253)
Interest rate swaps	8	7/31/2017 - 1/31/2018	4/30/2024 - 10/20/2024	2.16% - 2.39%	277,984	(21,474)
Interest rate swaps	3	4/30/2021	10/30/2026 - 10/31/2026	2.89% - 3.08%	102,720	(14,808)
Interest rate swaps	2	10/31/2019	4/30/2027	1.89% - 1.90%	19,007	(1,136)
Interest rate swaps	2	10/31/2019	10/31/2031	1.44% - 1.50%	22,908	(1,426)
Interest rate swaps	4	1/31/2018 - 4/30/2020	4/30/2034 - 10/31/2034	2.62% - 2.81%	243,504	(49,165)
Interest rate swaps	8	7/31/2017 - 10/18/2024	4/30/2035 - 10/31/2035	2.56% - 2.95%	275,438	(35,428)
Interest rate swap	1	10/18/2024	1/31/2036	2.95%	14,656	(1,797)
Interest rate swaps	3	1/31/2019 - 4/30/2021	4/30/2037	3.30% - 3.33%	100,000	(24,976)
Interest rate swaps	3	10/30/2026 - 10/31/2026	1/31/2038	3.01% - 3.16%	101,135	(15,862)
Total					\$ 1,168,028	\$ (166,325)

Note 10. Pass-through Financing Obligations

The Company's pass-through financing obligations ("financing obligations") arise when the Company leases solar energy systems to Fund investors who are considered commercial customers under a master lease agreement, and these investors in turn are assigned the Customer Agreements with customers. The Company receives all of the value attributable to the accelerated tax depreciation and some or all of the value attributable to the other incentives. Given the assignment of operating cash flows, these arrangements are accounted for as financing obligations. The Company also sells the rights and related value attributable to the Commercial ITC to these investors.

Under these financing obligation arrangements, wholly owned subsidiaries of the Company finance the cost of solar energy systems with investors for an initial term of typically 20 or 22 years. The solar energy systems are subject to Customer Agreements with an initial term of typically 20 or 25 years that automatically renew on an annual basis. These solar energy systems are reported under the line item solar energy systems, net in the consolidated balance sheets. As of June 30, 2020 and December 31, 2019, the cost of the solar energy systems placed in service under the financing obligation arrangements was \$657.2 million and \$657.9 million, respectively. The accumulated depreciation related to these assets as of June 30, 2020 and December 31, 2019 was \$ 107.8 million and \$95.9 million, respectively.

The investors make a series of large up-front payments and, in certain cases, subsequent smaller quarterly payments (lease payments) to the subsidiaries of the Company. The Company accounts for the payments received from the investors under the financing obligation arrangements as borrowings by recording the proceeds received as financing obligations on its consolidated balance sheets, and cash provided by financing activities in its consolidated statement of cash flows. These financing obligations are reduced over a period of approximately 22 years by customer payments under the Customer Agreements, U.S. Treasury grants (where applicable) and proceeds from the contracted resale of SRECs as they are received by the investor. In addition, funds paid for the Commercial ITC value upfront are initially recorded as a refund liability and recognized as revenue as the associated solar energy system reaches PTO. The Commercial ITC value is reflected in the cash provided by operations on the consolidated statement of cash flows. The Company accounts for the Customer Agreements and any related U.S. Treasury grants, as well as the resale of SRECs, consistent with the Company's revenue recognition accounting policies as described in Note 2, *Summary of Significant Accounting Policies*.

Interest is calculated on the financing obligations using the effective interest rate method. The effective interest rate, which is adjusted on a prospective basis, is the interest rate that equates the present value of the estimated cash amounts to be received by the investor over the lease term with the present value of the cash amounts paid by the investor to the Company, adjusted for amounts received by the investor. The financing obligations are nonrecourse once the associated assets have been placed in service and all the contractual arrangements have been assigned to the investor.

Under the majority of the financing obligations, the investor has a right to extend its right to receive cash flows from the customers beyond the initial term in certain circumstances. Depending on the arrangement, the Company has the option to settle the outstanding financing obligation on the ninth or eleventh anniversary of the Fund inception at a price equal to the higher of (a) the fair value of future remaining cash flows or (b) the amount that would result in the investor earning their targeted return. In several of these financing obligations, the investor has an option to require repayment of the entire outstanding balance on the tenth anniversary of the Fund inception at a price equal to the fair value of the future remaining cash flows.

Under all financing obligations, the Company is responsible for services such as warranty support, accounting, lease servicing and performance reporting to customers. As part of the warranty and performance guarantee with the customers, the Company guarantees certain specified minimum annual solar energy production output for the solar energy systems leased to the customers, which the Company accounts for as disclosed in Note 2, *Summary of Significant Accounting Policies*.

Note 11. VIE Arrangements

The Company consolidated various VIEs at June 30, 2020 and December 31, 2019. The carrying amounts and classification of the VIEs' assets and liabilities included in the consolidated balance sheets are as follows (in thousands):

	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	\$ 155,239	\$ 133,362
Restricted cash	12,411	2,746
Accounts receivable, net	25,530	21,956
Inventories	94,175	15,721
Prepaid expenses and other current assets	1,480	554
Total current assets	288,835	174,339
Solar energy systems, net	3,557,831	3,259,712
Other assets	102,257	87,151
Total assets	\$ 3,948,923	\$ 3,521,202
Liabilities		
Current liabilities		
Accounts payable	\$ 14,306	\$ 11,531
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	17,701	16,012
Accrued expenses and other liabilities	14,095	10,740
Deferred revenue, current portion	40,514	38,265
Deferred grants, current portion	1,011	1,011
Non-recourse debt, current portion	39,361	4,901
Total current liabilities	126,988	82,460
Deferred revenue, net of current portion	465,972	443,873
Deferred grants, net of current portion	26,505	27,023
Non-recourse debt, net of current portion	238,055	201,575
Other liabilities	36,929	19,633
Total liabilities	\$ 894,449	\$ 774,564

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

The Company holds certain variable interests in nonconsolidated VIEs established as a result of six pass-through Fund arrangements as further explained in Note 10, *Pass-through Financing Obligations*. The Company does not have material exposure to losses as a result of its involvement with the VIEs in excess of the amount of the pass-through financing obligation recorded in the Company's consolidated financial statements. The Company is not considered the primary beneficiary of these VIEs.

Note 12. Redeemable Noncontrolling Interests and Equity

During certain specified periods of time (the "Early Exit Periods"), noncontrolling interests in certain funding arrangements have the right to put all of their membership interests to the Company (the "Put Provisions"). During a specific period of time (the "Call Periods"), the Company has the right to call all membership units of the related redeemable noncontrolling interests.

The carrying value of redeemable noncontrolling interests was greater than the redemption value except for ten and nine Funds at June 30, 2020 and December 31, 2019, respectively, where the carrying value has been adjusted to the redemption value.

Note 13. Stock-Based Compensation

Stock Options

The following table summarizes the activity for all stock options under all of the Company's equity incentive plans for the six months ended June 30, 2020 (shares and aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2019	10,784	\$ 7.38	6.52	\$ 71,745
Granted	1,483	11.20		
Exercised	(1,396)	6.18		
Cancelled	(380)	9.16		
Outstanding at June 30, 2020	10,491	\$ 8.01	6.67	\$ 122,842
Options vested and exercisable at June 30, 2020	6,933	\$ 6.57	5.63	\$ 91,150

Restricted Stock Units

The following table summarizes the activity for all restricted stock units ("RSUs") under all of the Company's equity incentive plans for the six months ended June 30, 2020 (shares in thousands):

	Number of Awards	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2019	3,943	\$ 11.42
Granted	3,138	11.99
Issued	(2,128)	11.98
Cancelled / forfeited	(403)	10.70
Unvested balance at June 30, 2020	4,550	\$ 11.61

Employee Stock Purchase Plan

Under the Company's 2015 Employee Stock Purchase Plan ("ESPP"), eligible employees are offered shares bi-annually through a 24-month offering period that encompasses four six-month purchase periods. Each purchase period begins on the first trading day on or after May 15 and November 15 of each year. Employees may purchase a limited number of shares of the Company's common stock via regular payroll deductions at a discount of 15% of the lower of the fair market value of the Company's common stock on the first trading date of each offering period or on the exercise date. Employees may deduct up to 15% of payroll, with a cap of \$ 25,000 of fair market value of shares in any calendar year and 10,000 shares per employee per purchase period.

Stock-Based Compensation Expense

The Company recognized stock-based compensation expense, including ESPP expenses, in the consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of customer agreements and incentives	\$ 930	\$ 624	\$ 2,876	\$ 1,255
Cost of solar energy systems and product sales	270	190	943	358
Sales and marketing	1,821	1,303	5,299	2,431
Research and development	466	408	1,541	744
General and administration	6,895	4,258	18,668	7,778
Total	\$ 10,382	\$ 6,783	\$ 29,327	\$ 12,566

Note 14. Income Taxes

The income tax benefit rate for the three months ended June 30, 2020 and 2019 was (0.2)% and 1.8%, respectively, and for the six months ended June 30, 2020 and 2019 was 1.3% and 2.7%. The differences between the actual consolidated effective income tax rate and the U.S. federal statutory rate were primarily attributable to the allocation of losses on noncontrolling interests and an increase in valuation allowance.

The Company sells solar energy systems to investment Funds. As the investment Funds are consolidated by the Company, the gain on the sale of the assets has been eliminated in the consolidated financial statements, however gains on sale are recognized for tax purposes.

CARES Act

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. The CARES Act is a relief package that includes changes to the U.S. tax code including but not limited to, (1) modifications to the calculation of interest deductibility in 2019 and 2020, (2) changes to rules related to the uses and limitations of net operating loss carryforwards created from 2018 to 2020, and (3) technical corrections for qualified improvement property. The Company does not anticipate the CARES Act will have a material impact on income tax expense for 2020.

Uncertain Tax Positions

As of June 30, 2020 and December 31, 2019, the Company had no uncertain tax positions.

Tax Holidays

The Company received approval from a U.S. territory for a reduced income tax rate on February 3, 2020. The reduced income tax rate is retroactive to 2018 and is effective through December 31, 2043. The benefit from the reduced income tax rate of \$1.3 million for the years ended December 31, 2019 and 2018 was included in income tax expense for the quarter ended June 30, 2020. The benefit from the reduced income tax rate for the quarter ended June 30, 2020 was \$0.4 million.

Note 15. Commitments and Contingencies

Letters of Credit

As of June 30, 2020 and December 31, 2019, the Company had \$ 15.7 million and \$20.1 million, respectively, of unused letters of credit outstanding, which carry fees of 2.13% - 3.25% per annum and 1.25% - 3.25% per annum, respectively.

Operating and Finance Leases

The Company leases real estate under non-cancellable-operating leases and equipment under finance leases.

The components of lease expense were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Finance lease cost:				
Amortization of right-of-use assets	\$ 2,279	\$ 3,748	\$ 4,936	\$ 7,232
Interest on lease liabilities	207	433	424	672
Operating lease cost	3,032	3,620	6,158	6,499
Short-term lease cost	119	621	239	1,145
Variable lease cost	971	1,019	1,781	1,896
Sublease income	(212)	(193)	(372)	(349)
Total lease cost	\$ 6,396	\$ 9,248	\$ 13,166	\$ 17,095

Other information related to leases was as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	2,924	\$ 2,968	\$ 5,499	\$ 5,535
Operating cash flows from finance leases	195	238	416	439
Financing cash flows from finance leases	2,591	3,440	5,545	6,445
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	—	(245)	32	20,150
Finance leases	33	9,371	213	12,937
Weighted average remaining lease term (years):				
Operating leases	4.83	5.31	4.83	5.31
Finance leases	2.48	3.13	2.48	3.13
Weighted average discount rate:				
Operating leases	5.5 %	5.2 %	5.5 %	5.2 %
Finance leases	4.2 %	4.2 %	4.2 %	4.2 %

Future minimum lease commitments under non-cancellable leases as of June 30, 2020 were as follows (in thousands):

	Operating Leases	Sublease Income	Net Operating Leases	Finance Leases
2020	\$ 12,702	\$ 767	\$ 11,935	\$ 8,574
2021	10,772	276	10,496	5,907
2022	9,171	—	9,171	2,788
2023	7,369	—	7,369	129
2024	2,696	—	2,696	21
Thereafter	6,640	—	6,640	—
Total future lease payments	49,350	1,043	48,307	17,419
Less: Amount representing interest	6,113	—	6,113	807
Present value of future payments	43,237	1,043	42,194	16,612
Less: Tenant incentives	(3)	—	(3)	—
Net present value of future payments	43,240	1,043	42,197	16,612
Less: Current portion	10,658	—	10,658	8,065
Long-term portion	\$ 32,582	\$ 1,043	\$ 31,539	\$ 8,547

Purchase Commitment

The Company entered into purchase commitments, which have the ability to be canceled without significant penalties, with multiple suppliers to purchase \$108.5 million of photovoltaic modules, inverters and batteries by the end of 2022.

Warranty Accrual

The Company accrues warranty costs when revenue is recognized for solar energy systems sales, based on the estimated future costs of meeting its warranty obligations. Warranty costs primarily consist of replacement costs for supplies and labor costs for service personnel since warranties for equipment and materials are covered by the original manufacturer's warranty (other than a small deductible in certain cases). As such, the warranty reserve is immaterial in all periods presented. The Company makes and revises these estimates based on the number of solar energy systems under warranty, the Company's historical experience with warranty claims, assumptions on warranty claims to occur over a systems' warranty period and the Company's estimated replacement costs.

Commercial ITC and Cash Grant Indemnification

The Company is contractually committed to compensate certain investors for any losses that they may suffer in certain limited circumstances resulting from reductions in Commercial ITCs or U.S. Treasury grants. Generally, such obligations would arise as a result of reductions to the value of the underlying solar energy systems as assessed by the Internal Revenue Service (the "IRS"). At each balance sheet date, the Company assesses and recognizes, when applicable, the potential exposure from this obligation based on all the information available at that time, including any audits undertaken by the IRS. One of the Company's investors is being audited by the IRS. Since this audit is ongoing, the Company is unable to determine the potential tax liabilities as of the filing date of this Quarterly Report on Form 10-Q. The maximum potential future payments that the Company could have to make under this obligation would depend largely on the difference between the prices at which the solar energy systems were sold or transferred to the Funds (or, in certain structures, the fair market value claimed in respect of such systems (referred to as "claimed values")) and the eligible basis determined by the IRS. The Company set the purchase prices and claimed values based on fair market values determined with the assistance of an independent third-party appraisal with respect to the systems that generate Commercial ITCs that are passed-through to, and claimed by, the Fund investors. In April 2018, the Company purchased an insurance policy providing for certain payments by the insurers in the event there is any final determination (including a judicial determination) that reduced the Commercial ITCs claimed in respect of solar energy systems sold or transferred to most Funds through April 2018, or later, in the case of Funds added to the policy after such date. In general, the policy indemnifies the Company and related parties for additional taxes (including penalties and interest) owed in respect of lost Commercial ITCs, gross-up costs and expenses incurred in defending such claim, subject to negotiated exclusions from, and limitations to, coverage.

Litigation

The Company is subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of its business. The Company records a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Depending on the nature and timing of any such proceedings that may arise, an unfavorable resolution of a matter could materially affect the Company's future consolidated results of operations, cash flows or financial position in a particular period.

On April 8, 2019, a putative class action captioned Loftus et al. v. Sunrun Inc., Case No. 3:19-cv-01608, was filed in the United States District Court, Northern District of California. The complaint generally alleges violations of the Telephone Consumer Protection Act (the "TCPA") on behalf of an individual and putative classes of persons alleged to be similarly situated. Plaintiffs filed a First Amended Complaint on June 26, 2019, adding defendant MediaMix 365, LLC, also asserting individual and putative class claims under the TCPA, along with claims under the California Invasion of Privacy Act. In the amended version of their Complaint, plaintiffs seek statutory damages, equitable and injunctive relief, and attorneys' fees and costs on behalf of themselves and the absent purported classes. On January 23, 2020, the Court held a status conference and set discovery deadlines. Most, if not all, of the claims asserted in the lawsuit relate to activities allegedly engaged in by third-party vendors, for which the Company denies any responsibility. The vendors are contractually obligated to indemnify the Company for losses related to the conduct alleged. While the Company believes that the claims against it are without merit, in view of the cost and risk of continuing to defend the action, it has reached an agreement with plaintiffs to settle the lawsuit on a class-wide basis for \$5.5 million, which was accrued as of June 30, 2020, in exchange for a release of all claims that were or could have been asserted in the litigation. The settlement is subject to court-approval.

Note 16. Earnings Per Share

The computation of the Company's basic and diluted net loss per share is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net loss attributable to common stockholders	\$ (13,562)	\$ (1,293)	\$ (41,521)	\$ (15,155)
Denominator:				
Weighted average shares used to compute net loss per share attributable to common stockholders, basic	120,279	115,765	120,201	114,843
Weighted average effect of potentially dilutive shares to purchase common stock	—	—	—	—
Weighted average shares used to compute net loss per share attributable to common stockholders, diluted	120,279	115,765	120,201	114,843
Net loss per share attributable to common stockholders				
Basic	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)
Diluted	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)

The following shares were excluded from the computation of diluted net loss per share as the impact of including those shares would be anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Outstanding stock options	1,896	1,512	2,256	1,413
Unvested restricted stock units	1,845	352	1,924	916
Total	3,741	1,864	4,180	2,329

Note 17. Acquisitions

Omni Energy, LLC

In July 2019, the Company acquired a specified customer pipeline and assembled workforce from Omni Energy, LLC ("Omni"), an existing solar integrator with multi-family solar project origination and development capabilities.

The purchase consideration for the assets acquired was approximately \$23.5 million, consisting of \$2.7 million in cash upfront and \$20.8 million representing the fair value of contingent consideration based upon new solar system installations through 2022. The Company estimated the fair value of the contingent consideration at the acquisition date using a probability-weighted discounted cash flow methodology. The estimated range of outcomes (undiscounted) was from \$17.7 million to \$28.9 million. The total fair value of the assets acquired of \$ 23.5 million is comprised of an intangible asset related to customer relationships of \$14.2 million with estimated useful life of five years, and goodwill of \$ 9.3 million. Customer relationships were valued with Level 3 inputs. The fair value of the contingent consideration as of June 30, 2020 was \$8.0 million.

The fair value of the assets acquired and liabilities assumed is preliminary and may be adjusted as the Company obtains additional information, primarily related to adjustments for the customer relationships. If there are adjustments made for these items, the fair value of intangible assets and goodwill could be impacted. Thus these provisional measurements of fair value are subject to change. The Company expects to finalize the valuation of the intangible assets as soon as practicable, but not later than one year from the acquisition date.

Goodwill represents the excess of the purchase price over the fair value of the asset acquired. Goodwill recorded is primarily attributable to the acquired assembled workforce and synergies achieved through the elimination of redundant costs.

There was no revenue contributed from the acquired business to the Company, as measured from the date of the acquisition through June 30, 2020. The portion of the total expenses and net income associated with the acquired business was not separately identifiable due to the integration with the Company's operations. Due to the nature of the acquisition, the operations acquired and the related unaudited pro forma information are immaterial.

Note 18. Subsequent Events

Proposed Acquisition of Vivint Solar, Inc.

On July 6, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Vivint Solar, Inc. ("Vivint Solar") and Viking Merger Sub, Inc., a Delaware corporation and the Company's direct wholly owned subsidiary. Pursuant to the Merger Agreement, the Company will acquire Vivint Solar in an all-stock transaction. Each share of Vivint Solar common stock issued and outstanding immediately prior to the effective time of the merger will be converted automatically into the right to receive 0.55 shares of the Company's common stock. Vivint Solar stockholders are expected to own approximately 36% and the Company's stockholders are expected to own approximately 64% of the fully diluted shares of the combined company.

The acquisition of Vivint Solar is expected to be completed during the fourth quarter of 2020, subject to approval by Vivint Solar and Sunrun stockholders, regulatory approvals and other customary closing conditions.

The Merger Agreement provides for certain termination rights for both parties and provides that, in connection with a termination of the Merger Agreement under certain specified circumstances, Vivint Solar will be required to pay Sunrun a termination fee of \$54.0 million or Sunrun will be required to pay Vivint Solar a termination fee of \$45.0 million or \$ 107.0 million.

Private Placement

On July 29, 2020, the Company entered into a Subscription Agreement (the "Subscription Agreement") with SK E&S Co., Ltd., a corporation organized under the laws of the Republic of Korea ("SK"), an aggregate of 2,074,688 shares of its common stock, par value \$ 0.0001 per share (the "Shares"), at a price per share of \$36.15, for a purchase price of approximately \$ 75.0 million. The Company's sale and issuance of the shares to SK will occur on a date to be determined during the week of August 10, 2020. The private placement is made concurrently with an agreement between the Company and SK E&S and other affiliated companies to co-invest in a new venture focusing on home electrification. The electrification venture will have a contribution of \$150.0 million, with SK E&S and other affiliated companies investing \$75.0 million in cash and Sunrun investing \$ 65.0 million in cash and contributing advisory services valued at \$ 10.0 million. Each entity will have equal ownership of the venture.

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

The discussion in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the potential effects of the COVID-19 pandemic on our business and operations, results of operations and financial position;
- failure to satisfy the required conditions and otherwise complete our planned acquisition of Vivint Solar, or Vivint Solar on a timely basis or at all;
- the expected benefits and potential value created by the proposed merger with Vivint Solar for our stockholders, including the ownership percentage of our stockholders in the combined organization immediately following the consummation of the proposed merger;
- the inherent risks, costs and uncertainties associated with integrating the businesses in the proposed merger with Vivint Solar successfully and risks of not achieving all or any of the anticipated benefits of the proposed merger with Vivint Solar, or the risk that the anticipated benefits of the proposed acquisition may not be fully realized or take longer to realize than expected;
- the amount of any costs, fees, expenses, impairments and charges related to the relating to the proposed merger with Vivint Solar;
- the availability of rebates, tax credits and other financial incentives, and decreases to federal solar tax credits;
- determinations by the Internal Revenue Service of the fair market value of our solar energy systems;
- the retail price of utility-generated electricity or electricity from other energy sources;
- regulatory and policy development and changes;
- our ability to manage our supply chains and distribution channels and the impact of natural disasters and other events beyond our control, such as the COVID-19 pandemic;
- our industry's, and specifically our, continued ability to manage costs (including, but not limited to, equipment costs) associated with solar service offerings;
- our strategic partnerships and expected benefits of such partnerships;
- our ability to realize the anticipated benefits of past or future investments, strategic transactions, or acquisitions, and risk that the integration of these acquisitions may disrupt our business and management;
- the sufficiency of our cash, investment fund commitments and available borrowings to meet our anticipated cash needs;
- the expected size and time frame of our stock repurchase program;
- our need and ability to raise capital, refinance existing debt, and finance our operations and solar energy systems from new and existing investors;
- the potential impact of interest rates on our interest expense;
- our business plan and our ability to effectively manage our growth, including our rate of revenue growth;
- our ability to further penetrate existing markets, expand into new markets and our expectations regarding market growth (including, but not limited to, expected cancellation rates);
- our expectations concerning relationships with third parties, including the attraction, retention and continued existence of qualified solar partners;

- the impact of seasonality on our business;
- our investment in research and development and new product offerings;
- our ability to protect our intellectual property and customer data, as well as to maintain our brand;
- technical and capacity limitations imposed by power grid operators;
- the willingness of and ability of our solar partners to fulfill their respective warranty and other contractual obligations;
- our ability to renew or replace expiring, cancelled or terminated Customer Agreements at favorable rates or on a long-term basis;
- the ability of our solar energy systems to operate or deliver energy for any reason, including if interconnection or transmission facilities on which we rely become unavailable;
- our expectations regarding certain performance objectives and the renewal rates and purchase value of our solar energy systems after expiration of our Customer Agreements; and
- the calculation of certain of our key financial and operating metrics and accounting policies.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. These risks and uncertainties may be amplified by the ongoing COVID-19 pandemic, which has caused significant economic uncertainty and negative impacts on capital and credit markets. The extent to which the COVID-19 pandemic impacts our business, operations, and financial results, including the duration and magnitude of such effects, will depend on numerous factors, many of which are unpredictable, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the pandemic or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the Securities and Exchange Commission (the "SEC") as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

Overview

Sunrun's mission is to provide our customers with clean, affordable solar energy and storage, and a best-in-class customer experience. In 2007, we pioneered the residential solar service model, creating a low-cost solution for customers seeking to lower their energy bills. By removing the high initial cost and complexity of cash system sales that used to define the residential solar industry, we have fostered the industry's rapid growth and exposed an enormous market opportunity. Our relentless drive to increase the accessibility of solar energy is fueled by our enduring vision: to create a planet run by the sun.

We provide clean, solar energy typically at savings compared to traditional utility energy. Our primary customers are residential homeowners. We also offer battery storage along with solar energy systems to our customers in select markets and sell our services to certain commercial developers through our multi-family and new homes offerings. After inventing the residential solar service model and recognizing its enormous market potential, we have built the infrastructure and capabilities necessary to rapidly acquire and serve customers in a low-cost and scalable manner. Today, our scalable operating platform provides us with a number of unique advantages. First, we are able to drive distribution by marketing our solar service offerings through multiple channels, including our diverse partner network and direct-to-consumer operations. This multi-channel model supports broad sales and installation capabilities, which together allow us to achieve capital-efficient growth. Second, we are able to provide differentiated solutions to our customers that, combined with a great customer experience, we believe will drive meaningful margin advantages for us over the long term as we strive to create the industry's most valuable and satisfied customer base.

Our core solar service offerings are provided through our lease and power purchase agreements, which we refer to as our "Customer Agreements" and which provide customers with simple, predictable pricing for solar energy that is insulated from rising retail electricity prices. While customers have the option to purchase a solar energy system outright from us, most of our customers choose to buy solar as a service from us through our Customer Agreements without the significant upfront investment of purchasing a solar energy system. With our solar service offerings, we install solar energy systems on our customers' homes and provide them the solar power produced by those systems for typically a 20-year initial term. In certain markets, we offer a 25-year initial term service offering. In addition, we monitor, maintain and insure the system during the term of the contract. In exchange, we receive predictable cash flows from high credit quality customers and qualify for tax and other benefits. We finance portions of these tax benefits and cash flows through tax equity, non-recourse debt and project equity structures in order to fund our upfront costs, overhead and growth investments. We develop valuable customer relationships that can extend beyond this initial contract term and provide us an opportunity to offer additional services in the future, such as our home battery storage service. Since our founding, we have continued to invest in a platform of services and tools to enable large scale operations for us and our partner network, and these partners include solar integrators, sales partners, installation partners and other strategic partners. The platform includes processes and software, as well as fulfillment and acquisition of marketing leads. We believe our platform empowers new market entrants and smaller industry participants to profitably serve our large and underpenetrated market without making the significant investments in technology and infrastructure required to compete effectively against established industry players. Our platform provides the support for our multi-channel model, which drives broad customer reach and capital-efficient growth.

Delivering a differentiated customer experience is core to our strategy. We emphasize a customized solution, including a design specific to each customer's home and pricing configurations that typically drive both customer savings and value to us. We believe that our passion for engaging our customers, developing a trusted brand, and providing a customized solar service offering resonates with our customers who are accustomed to a traditional residential power market that is often overpriced and lacking in customer choice.

We have experienced substantial growth in our business and operations since our inception in 2007. As of June 30, 2020, we operated the second largest fleet of residential solar energy systems in the United States. We have an aggregate of 2,163 Megawatts Deployed as of June 30, 2020, and our Gross Earning Assets as of June 30, 2020 were approximately \$3.9 billion. Please see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Operating Metrics" for more details on how we calculate Megawatts Deployed and Gross Earning Assets.

We also have a long track record of attracting low-cost capital from diverse sources, including tax equity and debt investors. Since inception we have raised tax equity investment funds to finance the installation of solar energy systems.

Recent Impacts of COVID-19 on Our Business

The COVID-19 pandemic and the resulting impact on the U.S. economy have accelerated many of our operational initiatives to deliver best-in-class customer value and to reduce costs. We have invested in technology to streamline our installation processes, including online permitting and interconnection in many locations, as well as employing extensive use of drone technology to complete rooftop surveys. While we continue to install solar systems in most markets, we are monitoring this fluid situation and will follow official regulations to protect our employees and customers.

Following the first shelter-in-place orders in California, we enabled our entire salesforce to complete sales consultations in a virtual setting. Despite the fact that we have paused sourcing leads through certain channels, we have seen more leads through our digital channels at similar or more attractive customer acquisition costs. We believe this transition towards a digital model will position us well to realize sustaining reductions in customer acquisition costs.

We have taken actions to mitigate the negative impacts of COVID-19, including, but not limited to, cost reduction initiatives such as decreasing a portion of our workforce through furloughs and layoffs, salary reductions, and temporarily closing warehouses and sales offices. However, these efforts may not prove to be sufficient given the present uncertainties about the duration and severity of the COVID-19 pandemic.

A significant portion of our business model is directly variable with deployments currently sold and built by our channel partners. In the remainder of our business, we have already taken actions to significantly lower our expenses, primarily from various labor-related cost actions, which we believe strike an appropriate balance that considers the welfare of our employees, protecting the business against possible downside scenarios, and preserving our ability to grow quickly as the situation stabilizes.

The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change, and we do not yet know the full extent of potential delays or impacts on our business, operations or the global economy as a whole. We will continue to monitor developments affecting our workforce, our customers, and our business operations generally and will take additional actions that we determine are necessary in order to mitigate these impacts.

Proposed Acquisition of Vivint Solar, Inc.

Agreement and Plan of Merger

On July 6, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Vivint Solar and Viking Merger Sub, Inc., a Delaware corporation and our direct wholly owned subsidiary. Pursuant to the Merger Agreement, we will acquire Vivint Solar in an all-stock transaction. Each share of Vivint Solar common stock issued and outstanding immediately prior to the effective time of the merger will be converted automatically into the right to receive 0.55 shares of our common stock, representing a combined enterprise value of \$9.2 billion based on the closing price of our shares of common stock on July 6, 2020. Vivint Solar stockholders are expected to own approximately 36% and our stockholders are expected to own approximately 64% of the fully diluted shares of the combined company. The exchange ratio implies a 10% premium for Vivint Solar shares based on closing prices on July 6, 2020, and a 15% premium to the exchange ratio implied by the three-month volume weighted average price of Vivint Solar and our shares.

The acquisition of Vivint Solar is expected to be completed during the fourth quarter of 2020, subject to approval by Vivint Solar and Sunrun stockholders, regulatory approvals and other customary closing conditions.

Support Agreements

Simultaneously with the execution of the Merger Agreement, Sunrun and 313 Acquisition LLC, an affiliate of The Blackstone Group Inc. (“313 Acquisition”), have entered into a support agreement (the “Vivint Solar Support Agreement”), pursuant to which 313 Acquisition agreed, among other things, to vote its shares of Vivint Solar Common Stock in favor of the adoption of the Merger Agreement and against any alternative proposal. 313 Acquisition also agreed not to transfer any shares of Vivint Solar Common Stock, subject to certain exceptions including for certain permitted transfers from and after the date of Vivint Solar’s stockholder meeting, or any adjournment or postponement thereof, in each case, at which a vote in favor of the merger is obtained.

Also simultaneously with the execution of the Merger Agreement, Tiger Global Investments, L.P. and Tiger Global Long Opportunities Master Fund, L.P. (collectively, “Tiger Global”) and Vivint Solar have entered into a support agreement (the “Sunrun Support Agreement”), pursuant to which Tiger Global agreed, among other things, to vote its shares of Sunrun Common Stock in favor of the approval of the issuance of shares of Sunrun Common Stock pursuant to the Merger Agreement and against any alternative proposal. Tiger Global also agreed not to transfer any shares of Sunrun Common Stock currently held by it until the conclusion of Sunrun’s duly convened stockholder meeting, or at any adjournment or postponement thereof, in each case, at which a vote on the issuance of Sunrun Common Stock in connection with the merger is taken.

Registration Rights Agreement

Simultaneously with the execution of the Merger Agreement and to be effective as of the Effective Time, Sunrun, 313 Acquisition, Blackstone VNT Co-Invest L.P., Blackstone Capital Partners VI L.P., Blackstone Family Investment Partnership VI-ESC L.P., Blackstone Family Investment Partnership VI L.P., Summit Partners Growth Equity Fund VIII-A, L.P., Summit Partners Growth Equity Fund VIII-B, L.P., Summit Investors I, LLC, Summit Investors I (UK), L.P. and Todd R. Pedersen (collectively, the “Holders” and each, a “Holder”) have entered into a registration rights agreement (the “Registration Rights Agreement”), pursuant to which the Holders agreed, among other things, that if Sunrun registers its securities for public sale or sale pursuant to the exercise of any demand rights, Sunrun will, at the request of a Holder, include such shares of Sunrun Common Stock held by such Holder in the registration. The Holders have also agreed to lock up 50% of the shares of Sunrun Common Stock obtained as a result of the Merger for 60 days following Closing and the remaining 50% for 120 days following Closing, subject to certain exceptions.

Private Placement

On July 29, 2020, Sunrun entered into a Subscription Agreement (the “Subscription Agreement”) with SK E&S Co., Ltd., a corporation organized under the laws of the Republic of Korea (“SK”), an aggregate of 2,074,688 shares of its common stock, par value \$0.0001 per share (the “Shares”), at a price per share of \$36.15, for a purchase price of approximately \$75.0 million. Sunrun’s sale and issuance of the shares to SK will occur on a date to be determined during the week of August 10, 2020. The private placement is made concurrently with an agreement between Sunrun and SK E&S and other affiliated companies to co-invest in a new venture focusing on home electrification. The electrification venture will have a contribution of \$150.0 million, with SK E&S and other affiliated companies investing \$75.0million in cash and Sunrun investing \$65.0 million in cash and contributing advisory services valued at \$10.0 million. Each entity will have equal ownership of the venture.

Investment Funds

Our Customer Agreements provide for recurring customer payments, typically over 20 or 25 years, and the related solar energy systems are generally eligible for Commercial ITCs, accelerated tax depreciation and other government or utility incentives. Our financing strategy is to monetize these benefits at a low weighted average cost of capital. This low cost of capital enables us to offer attractive pricing to our customers for the energy generated by the solar energy system on their homes. Historically, we have monetized a portion of the value created by our Customer Agreements and the related solar energy systems through investment funds. These assets are attractive to fund investors due to the long-term, recurring nature of the cash flows generated by our Customer Agreements, the high credit scores of our customers, the fact that energy is a non-discretionary good and our low loss rates. In addition, fund investors can receive attractive after-tax returns from our investment funds due to their ability to utilize Commercial ITCs, accelerated depreciation and certain government or utility incentives associated with the funds’ ownership of solar energy systems.

As of June 30, 2020, we had 34 active investment funds, which are described below. We have established different types of investment funds to implement our asset monetization strategy. Depending on the nature of the investment fund, cash may be contributed to the investment fund by the investor upfront or in stages based on milestones associated with the design, construction or interconnection status of the solar energy systems. The cash contributed by the fund investor is used by the investment fund to purchase solar energy systems. The investment funds either own or enter into a master lease with a Sunrun subsidiary for the solar energy systems, Customer Agreements and associated incentives. We receive on-going cash distributions from the investment funds representing a portion of the monthly customer payments received. We use the upfront cash, as well as on-going distributions, to cover our costs associated with designing, purchasing and installing the solar energy systems. In addition, we also use debt, equity and other financing strategies to fund our operations. The allocation of the economic benefits between us and the fund investor and the corresponding accounting treatment varies depending on the structure of the investment fund.

We currently utilize three legal structures in our investment funds, which we refer to as: (i) pass-through financing obligations, (ii) partnership flips and (iii) joint venture (“JV”) inverted leases. We reflect pass-through financing obligations on our consolidated balance sheet as a pass-through financing obligation. We record the investor’s interest in partnership flips or JV inverted leases (which we define collectively as “consolidated joint ventures”) as noncontrolling interests or redeemable noncontrolling interests. These consolidated joint ventures are usually redeemable at our option and, in certain cases, at the investor’s option. If redemption is at our option or the consolidated joint ventures are not redeemable, we record the investor’s interest as a noncontrolling interest and account for the interest using the hypothetical liquidation at book value (“HLBV”) method. If the investor has the option to put their interest to us, we record the investor’s interest as a redeemable noncontrolling interest at the greater of the HLBV and the redemption value.

The table below provides an overview of our current investment funds (dollars in millions):

	Pass-Through Financing Obligations	Consolidated Joint Ventures	
		Partnership Flip	JV Inverted Lease
Consolidation	Owner entity consolidated, tenant entity not consolidated	Single entity, consolidated	Owner and tenant entities consolidated
Balance sheet classification	Pass-through financing obligation	Redeemable noncontrolling interests and noncontrolling interests	Redeemable noncontrolling interests and noncontrolling interests
Revenue from Commercial ITCs	Recognized on the permission to operate (“PTO”) date	None	None
Method of calculating investor interest	Effective interest rate method	Greater of HLBV or redemption value	Greater of HLBV or redemption value; or pro rata
Liability balance as of June 30, 2020	\$ 337.6	N/A	N/A
Noncontrolling interest balance (redeemable or otherwise) as of June 30, 2020	N/A	\$ 768.7	\$ 35.3

For further information regarding our investment funds, including the associated risks, see Part II, Item 1A. *Risk Factors*— “Our ability to provide our solar service offerings to customers on an economically viable basis depends in part on our ability to finance these systems with fund investors who seek particular tax and other benefits”, as well as Note 10, *Pass-through Financing Obligations*, Note 11, *VIE Arrangements* and Note 12, *Redeemable Noncontrolling Interests and Equity* to our consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

Key Operating Metrics

We regularly review a number of metrics, including the following key operating metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Some of our key operating metrics are estimates that are based on our management’s beliefs and assumptions and on information currently available to management. Although we believe that we have a reasonable basis for each of these estimates, we caution you that these estimates are based on a combination of assumptions that may prove to be inaccurate over time. Any inaccuracies could be material to our actual results when compared to our calculations. Please see the section titled “Risk Factors” in this Quarterly Report on Form 10-Q for more information. Furthermore, other companies may calculate these metrics differently than we do now or in the future, which would reduce their usefulness as a comparative measure.

- *Megawatts Deployed* represents the aggregate megawatt production capacity of our solar energy systems, whether sold directly to customers or subject to executed Customer Agreements (i) for which we have confirmation that the systems are installed on the roof, subject to final inspection; (ii) in the case of certain system installations by our partners, for which we have accrued at least 80% of the expected project cost, or (iii) for multi-family and any other systems that have reached NTP, measured on the percentage of the project that has been completed based on expected project cost.
- *Gross Earning Assets* represents the net cash flows (discounted at 6%) we expect to receive during the initial term of our Customer Agreements (typically 20 or 25 years) for systems that have been deployed as of the measurement date, plus a discounted estimate of the value of the Customer Agreement renewal term or solar energy system purchase at the end of the initial term. Consistent with industry standards, we use a discount rate of 6%. We consider a discount rate of 6% to be appropriate and consistent with recent market transactions that demonstrate that a portfolio of residential solar customer contracts is an asset class that can be securitized successfully on a long-term basis, with a coupon of less than 5%. We calculate the Gross Earning Assets value of the purchase or renewal amount at the expiration of the initial contract term assuming either a system purchase or a five year renewal (for our 25-year Customer Agreements) or a 10-year renewal (for our 20-year Customer Agreements), in each case forecasting only a 30-year customer relationship (although the customer may renew for additional years, or thereafter purchase the system), at a contract rate equal to 90% of the customer's contractual rate in effect at the end of the initial contract term. After the initial (generally 20 or 25 year) contract term, our Customer Agreements typically automatically renew on an annual basis and the rate is initially set at up to a 10% discount to then-prevailing power prices.

Gross Earning Assets is calculated net of estimated cash distributions to investors in consolidated joint ventures and estimated operating, maintenance and administrative expenses for systems deployed as of the measurement date. In calculating Gross Earning Assets, we deduct estimated cash distributions to our project equity financing providers. In calculating Gross Earning Assets, we do not deduct customer payments we are obligated to pass through to investors in pass-through financing obligations as these amounts are reflected on our balance sheet as long-term and short-term pass-through financing obligations, similar to the way that debt obligations are presented. In determining our finance strategy, we use pass-through financing obligations and long-term debt in an equivalent fashion as the schedule of payments of distributions to pass-through financing obligation investors is more similar to the payment of interest to lenders than the internal rates of return (IRRs) paid to investors in other tax equity structures.

- *Gross Earning Assets Under Energy Contract* represents the net cash flows during the initial term of our Customer Agreements (less substantially all value from SRECs prior to July 1, 2015), for systems deployed as of the measurement date.
- *Gross Earning Assets Value of Purchase or Renewal* is the forecasted net present value we would receive upon or following the expiration of the initial Customer Agreement term (either in the form of cash payments during any applicable renewal period or a system purchase at the end of the initial term), for systems deployed as of the measurement date.

Gross Earning Assets is forecasted as of a specific date. It is forward-looking, and we use judgment in developing the assumptions used to calculate it. Factors that could impact Gross Earning Assets include, but are not limited to, customer payment defaults, or declines in utility rates or early termination of a contract in certain circumstances, including prior to installation.

	As of June 30,	
	2020	2019
Cumulative Megawatts Deployed (end of period)	2,163	1,763

	As of June 30,	
	2020	2019
	<i>(in thousands)</i>	
Gross Earning Assets Under Energy Contract	\$ 2,667,498	\$ 2,252,118
Gross Earning Assets Value of Purchase or Renewal	1,224,664	1,060,236
Gross Earning Assets	<u>\$ 3,892,162</u>	<u>\$ 3,312,354</u>

The tables below provide a range of Gross Earning Asset amounts if different default, discount and purchase and renewal assumptions were used.

Gross Earning Assets Under Energy Contract:

<u>Default rate</u>	As of June 30, 2020				
	Discount rate				
	4%	5%	6%	7%	8%
	<i>(in thousands)</i>				
5%	\$ 3,056,653	\$ 2,810,374	\$ 2,594,277	\$ 2,403,958	\$ 2,235,731
0%	\$ 3,147,759	\$ 2,891,899	\$ 2,667,499	\$ 2,469,956	\$ 2,295,425

Gross Earning Assets Value of Purchase or Renewal:

<u>Purchase or Renewal rate</u>	As of June 30, 2020				
	Discount rate				
	4%	5%	6%	7%	8%
	<i>(in thousands)</i>				
80%	\$ 1,595,964	\$ 1,302,796	\$ 1,067,241	\$ 877,307	\$ 723,627
90%	\$ 1,831,336	\$ 1,494,950	\$ 1,224,664	\$ 1,006,720	\$ 830,372
100%	\$ 2,066,707	\$ 1,687,105	\$ 1,382,086	\$ 1,136,132	\$ 937,116

Total Gross Earning Assets:

<u>Purchase or Renewal rate</u>	As of June 30, 2020				
	Discount rate				
	4%	5%	6%	7%	8%
	<i>(in thousands)</i>				
80%	\$ 4,743,723	\$ 4,194,695	\$ 3,734,739	\$ 3,347,263	\$ 3,019,052
90%	\$ 4,979,094	\$ 4,386,850	\$ 3,892,162	\$ 3,476,676	\$ 3,125,797
100%	\$ 5,214,466	\$ 4,579,004	\$ 4,049,585	\$ 3,606,088	\$ 3,232,541

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances, changes in the accounting estimates are reasonably likely to occur from period-to-period. Actual results could differ significantly from our estimates. Our future financial statements will be affected to the extent that our actual results materially differ from these estimates. For further information on all of our significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We believe that policies associated with our principles of consolidation, revenue recognition, impairment of long-lived assets, provision for income taxes and calculation of noncontrolling interests and redeemable noncontrolling interests have the greatest impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<i>(in thousands, except per share data)</i>				
Revenue:				
Customer agreements and incentives	\$ 106,095	\$ 92,439	\$ 205,219	\$ 192,289
Solar energy systems and product sales	75,199	112,156	186,806	206,810
Total revenue	181,294	204,595	392,025	399,099
Operating expenses:				
Cost of customer agreements and incentives	83,422	70,594	161,699	140,087
Cost of solar energy systems and product sales	63,746	86,348	155,344	164,147
Sales and marketing	69,701	70,038	139,971	125,991
Research and development	4,971	6,555	9,017	12,029
General and administrative	41,756	33,044	69,830	62,107
Amortization of intangible assets	1,167	814	2,650	1,707
Total operating expenses	264,763	267,393	538,511	506,068
Loss from operations	(83,469)	(62,798)	(146,486)	(106,969)
Interest expense, net	50,721	42,309	100,645	83,649
Other expenses, net	148	1,388	98	6,144
Loss before income taxes	(134,338)	(106,495)	(247,229)	(196,762)
Income tax expense (benefit)	211	(1,910)	(3,131)	(5,271)
Net loss	(134,549)	(104,585)	(244,098)	(191,491)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(120,987)	(103,292)	(202,577)	(176,336)
Net loss attributable to common stockholders	\$ (13,562)	\$ (1,293)	\$ (41,521)	\$ (15,155)
Net loss per share attributable to common stockholders				
Basic	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)
Diluted	\$ (0.11)	\$ (0.01)	\$ (0.35)	\$ (0.13)
Weighted average shares used to compute loss per share attributable to common stockholders				
Basic	120,279	115,765	120,201	114,843
Diluted	120,279	115,765	120,201	114,843

Comparison of the Three Months Ended June 30, 2020 and 2019

Revenue

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Customer agreements	\$ 98,525	\$ 85,277	\$ 13,248	16 %
Incentives	7,570	7,162	408	6 %
Customer agreements and incentives	106,095	92,439	13,656	15 %
Solar energy systems	44,579	66,569	(21,990)	(33)%
Products	30,620	45,587	(14,967)	(33)%
Solar energy systems and product sales	75,199	112,156	(36,957)	(33)%
Total revenue	\$ 181,294	\$ 204,595	\$ (23,301)	(11)%

Customer Agreements and Incentives. The \$13.2 million increase in revenue from Customer Agreements was primarily due to both an increase in solar energy systems under Customer Agreements being placed in service in the period from July 1, 2019 through June 30, 2020, plus a full quarter of revenue recognized in the second quarter of 2020 for systems placed in service in the second quarter of 2019 versus only a partial quarter of such revenue related to the period in which the assets were in service in 2019. Revenue from incentives primarily consists of sales of SRECs, which increased by \$0.4 million during the three months ended June 30, 2020, compared to the prior year as a result of an increase in SREC deliveries from the prior year.

Solar Energy Systems and Product Sales. Revenue from solar energy systems sales decreased by \$22.0 million compared to the prior year due to decreased demand through retail partners. Product sales decreased by \$15.0 million, primarily due to a decrease in the volume of wholesale products sold, which has been impacted by COVID-19 and customers' reduced purchases in 2020 after purchasing safe harbor materials in 2019 for use in 2020.

Operating Expenses

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Cost of customer agreements and incentives	\$ 83,422	\$ 70,594	\$ 12,828	18 %
Cost of solar energy systems and product sales	63,746	86,348	(22,602)	(26)%
Sales and marketing	69,701	70,038	(337)	— %
Research and development	4,971	6,555	(1,584)	(24)%
General and administrative	41,756	33,044	8,712	26 %
Amortization of intangible assets	1,167	814	353	43 %
Total operating expenses	\$ 264,763	\$ 267,393	\$ (2,630)	(1)%

Cost of Customer Agreements and Incentives. The \$12.8 million increase in Cost of customer agreements and incentives was primarily due to the increase in solar energy systems placed in service in the period from July 1, 2019 through June 30, 2020, plus a full quarter of costs recognized in the second quarter of 2020 for systems placed in service in the second quarter of 2019 versus only a partial quarter of such expenses related to the period in which the assets were in service in 2019.

The Cost of customer agreements and incentives increased to 79% of revenue from customer agreements and incentives during the three months ended June 30, 2020, from 76% during the three months ended June 30, 2019.

Cost of Solar Energy Systems and Product Sales. The \$22.6 million decrease in Cost of solar energy systems and product sales was due to the corresponding net decrease in the solar energy systems and product sales discussed above.

Sales and Marketing Expense. The \$0.3 million decrease in Sales and marketing expense was a result of a decrease in headcount driving lower employee compensation. This decrease was partially offset by \$7.0 million in non-recurring and restructuring costs incurred in the three months ended June 30, 2020. Included in sales and marketing expense is \$3.5 million and \$2.9 million of amortization of costs to obtain Customer Agreements for the three months ended June 30, 2020 and 2019, respectively.

Research and Development Expense. The \$1.6 million decrease in Research and development expense was primarily attributable to a lower consulting fees, as well as a slight decrease in headcount resulting in lower employee compensation.

General and Administrative Expense. The \$8.7 million increase in General and administrative expenses was primarily attributable to a \$6.7 million legal settlement accrual and other non-recurring and restructuring costs of \$3.2 million, partially offset by a decrease in consulting costs.

Non-Operating Expenses

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Interest expense, net	\$ 50,721	\$ 42,309	\$ 8,412	20 %
Other expenses, net	\$ 148	\$ 1,388	\$ (1,240)	(89)%

Interest Expense, net. The increase in Interest expense, net of \$8.4 million was related to additional non-recourse and pass-through financing obligation debt entered into subsequent to June 30, 2019. Included in net interest expense is \$6.2 million and \$7.4 million of non-cash interest recognized under Customer Agreements that have a significant financing component for the three months ended June 30, 2020 and 2019, respectively.

Other Expenses, net. The decrease in Other expenses, net of \$1.2 million relates primarily to a loss from the early extinguishment of certain non-recourse debt in 2019, with no such comparable activity in the three months ended June 30, 2020.

Income Tax Expense (Benefit)

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Income tax expense (benefit)	\$ 211	\$ (1,910)	\$ 2,121	(111)%

The tax benefit at the statutory rate of 21.0% for 2020 was reduced by the allocation of losses to noncontrolling interests and redeemable noncontrolling interests of 18.8%, and increase in valuation allowance of 3.5% and increased by other benefits of 1.1%. The tax benefit at the statutory rate of 21.0% for 2019 was reduced by the allocation of the losses to noncontrolling interests and redeemable noncontrolling interests of 20.4%, and increase in valuation allowance of 4.3% and offset by tax deductions from other miscellaneous items of 5.5%.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	\$ (120,987)	\$ (103,292)	\$ (17,695)	17 %

The increase in net loss attributable to noncontrolling interests and redeemable noncontrolling interests of \$17.7 million was primarily a result of the addition of four investment funds since June 30, 2019, as well as the HLBV method used in determining the amount of net loss attributable to noncontrolling interests and redeemable noncontrolling interests, which generally allocates more loss to the noncontrolling interest in the first several years after fund formation.

Comparison of the Six Months Ended June 30, 2020 and 2019**Revenue**

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Customer agreements	\$ 192,778	\$ 163,805	\$ 28,973	18 %
Incentives	12,441	28,484	(16,043)	(56)%
Customer agreements and incentives	205,219	192,289	12,930	7 %
Solar energy systems	115,856	125,005	(9,149)	(7)%
Products	70,950	81,805	(10,855)	(13)%
Solar energy systems and product sales	186,806	206,810	(20,004)	(10)%
Total revenue	\$ 392,025	\$ 399,099	\$ (7,074)	(2)%

Customer Agreements and Incentives. The \$29.0 million increase in revenue from Customer Agreements was primarily due to both an increase in solar energy systems under Customer Agreements being placed in service in the period from July 1, 2019 through June 30, 2020, plus a full half year of revenue recognized in 2020 for systems placed in service in the first half of 2019 versus only a partial first half of such revenue related to the period in which the assets were in service in 2019. Revenue from incentives consists of sales of Commercial ITCs and SRECs, which decreased by \$16.0 million during the six months ended June 30, 2020, compared to the prior year. The decrease was due to the sale of Commercial ITCs under a financing obligation fund opened in 2018, with PTO activity in that fund primarily concluding during the second quarter of 2019. There has been no such comparable fund opened in 2019 or 2020.

Solar Energy Systems and Product Sales. Revenue from solar energy systems sales decreased by \$9.1 million compared to the prior year due to decreased demand through retail partners. Product sales decreased by \$10.9 million, primarily due to a decrease in the volume of wholesale products sold, which has been impacted by COVID-19 and customers' reduced purchases in 2020 after purchasing safe harbor materials in 2019 for use in 2020.

Operating Expenses

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
	(in thousands)			
Cost of customer agreements and incentives	\$ 161,699	\$ 140,087	\$ 21,612	15 %
Cost of solar energy systems and product sales	155,344	164,147	(8,803)	(5)%
Sales and marketing	139,971	125,991	13,980	11 %
Research and development	9,017	12,029	(3,012)	(25)%
General and administrative	69,830	62,107	7,723	12 %
Amortization of intangible assets	2,650	1,707	943	55 %
Total operating expenses	\$ 538,511	\$ 506,068	\$ 32,443	6 %

Cost of Customer Agreements and Incentives. The \$21.6 million increase in Cost of customer agreements and incentives was primarily due to the increase in solar energy systems placed in service in the period from July 1, 2019 through June 30, 2020, plus a full half year of costs recognized in 2020 for systems placed in service in the first half of 2019 versus only a partial first half of such expenses related to the period in which the assets were in service in 2019.

The cost of Customer Agreements and incentives increased to 79% of revenue from customer agreements and incentives during the six months ended June 30, 2020, from 73% during the six months ended June 30, 2019 due to the \$16.0 million decrease in revenue from incentives, as discussed above. The cost of sales related to incentives was minimal.

Cost of Solar Energy Systems and Product Sales. The \$8.8 million decrease in Cost of solar energy systems and product sales was due to the corresponding net decrease in the solar energy systems and product sales discussed above.

Sales and Marketing Expense. The \$14.0 million increase in Sales and marketing expense was primarily attributable to \$8.0 million in non-recurring and restructuring costs incurred during the six months ended June 30, 2020, as well as an increase in costs to acquire customers through our retail channels and sales lead generating partners, partially offset by a decrease in headcount driving lower compensation. Included in sales and marketing expense is \$6.9 million and \$5.5 million of amortization of costs to obtain Customer Agreements for the six months ended June 30, 2020 and 2019, respectively.

Research and Development Expense. The \$3.0 million decrease in Research and development expense was primarily attributable to a decrease in consulting fees, as well as a decrease in headcount resulting in lower employee compensation.

General and Administrative Expense. The \$7.7 million increase in General and administrative expenses was primarily attributable to a \$6.7 million legal settlement accrual, as well as \$3.4 million in non-recurring and restructuring costs incurred during the six months ended June 30, 2020, partially offset by a decrease in consulting costs.

Non-Operating Expenses

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
	(in thousands)			
Interest expense, net	\$ 100,645	\$ 83,649	\$ 16,996	20 %
Other expenses, net	\$ 98	\$ 6,144	\$ (6,046)	(98)%

Interest Expense, net. The increase in Interest expense, net of \$17.0 million was related to additional non-recourse and pass-through financing obligation debt entered into subsequent to June 30, 2019. Included in net interest expense is \$12.3 million and \$13.4 million of non-cash interest recognized under Customer Agreements that have a significant financing component for the six months ended June 30, 2020 and 2019, respectively.

Other Expenses, net. The decrease in Other expenses, net of \$6.0 million relates primarily to losses on extinguishment of debt related to an early repayment of pass-through financing obligation in 2019, with no such comparable activity in the six months ended June 30, 2020.

Income Tax Expense

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Income tax benefit	\$ (3,131)	\$ (5,271)	\$ 2,140	(41)%

The tax benefit at the statutory rate of 21.0% for 2020 was reduced by the allocation of losses to noncontrolling interests and redeemable noncontrolling interests of 17.1%, and increase in valuation allowance of 4.8% and increased by other benefits of 2.2%. The tax benefit at the statutory rate of 21.0% for 2019 was reduced by the allocation of the losses to noncontrolling interests and redeemable noncontrolling interests of 18.8%, and increase in valuation allowance of 5.1% and offset by tax deductions from other miscellaneous items of 5.6%.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
	<i>(in thousands)</i>			
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	\$ (202,577)	\$ (176,336)	\$ (26,241)	15 %

The increase in net loss attributable to noncontrolling interests and redeemable noncontrolling interests of \$26.2 million was primarily a result of the addition of four investment funds since June 30, 2019, as well as the HLBV method used in determining the amount of net loss attributable to noncontrolling interests and redeemable noncontrolling interests, which generally allocates more loss to the noncontrolling interest in the first several years after fund formation.

Liquidity and Capital Resources

As of June 30, 2020, we had cash of \$269.6 million, which consisted of cash held in checking and savings accounts with financial institutions. We finance our operations mainly through a variety of financing fund arrangements that we have formed with fund investors, borrowings, cash generated from our sources of revenue, and proceeds from secured credit facilities arrangements with a syndicate of banks for up to \$265.3 million and from secured, long-term non-recourse loan arrangements for up to \$199.0 million. Our principal uses of cash are funding our business, including the costs of acquisition and installation of solar energy systems, satisfaction of our obligations under our debt instruments and other working capital requirements.

Our business model requires substantial outside financing arrangements to grow the business and facilitate the deployment of additional solar energy systems. The solar energy systems that are operational are expected to generate a positive return rate over the term of the Customer Agreement, typically 20 or 25 years. However, in order to grow, we will continue to be dependent on financing from outside parties. If financing is not available to us on acceptable terms if and when needed, we may be required to reduce planned spending, which could have a material adverse effect on our operations. While there can be no assurances, we anticipate raising additional required capital from new and existing investors. In connection with our cost reduction measures discussed above implemented in response to COVID-19, we believe our cash, investment fund commitments and available borrowings as further described below will be sufficient to meet our anticipated cash needs for at least the next 12 months. The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2020	2019
	<i>(in thousands)</i>	
Consolidated cash flow data:		
Net cash used in operating activities	\$ (152,253)	\$ (56,615)
Net cash used in investing activities	(364,417)	(402,380)
Net cash provided by financing activities	507,673	508,463
Net change in cash and restricted cash	<u>\$ (8,997)</u>	<u>\$ 49,468</u>

Operating Activities

During the six months ended June 30, 2020, we used \$152.3 million in net cash from operating activities. The driver of our operating cash outflow consists of the cost of our revenue, as well as sales, marketing and general and administrative costs. During the six months ended June 30, 2020, our operating cash outflows were \$102.1 million from our net loss excluding non-cash and non-operating items. Changes in working capital resulted in a net cash outflow of \$50.2 million.

During the six months ended June 30, 2019, we used \$56.6 million in net cash from operating activities. The driver of our operating cash outflow consists of the cost of our revenue, as well as sales, marketing and general and administrative costs. During the six months ended June 30, 2019, deferred revenue increased by \$95.5 million arising from a sale of the right to SRECs to be generated over the next 10 to 15 years by a group of solar energy systems. In connection with the sale, we repaid debt previously drawn against the rights to these SRECs, which is reflected in our financing activities below. During the six months ended June 30, 2019, our operating cash outflows were \$95.8 million from our net loss excluding non-cash and non-operating items. Changes in working capital resulted in a net cash inflow of \$39.2 million.

Investing Activities

During the six months ended June 30, 2020, we used \$364.4 million in cash in investing activities. The majority was used to design, acquire and install solar energy systems and components under our long-term Customer Agreements.

During the six months ended June 30, 2019, we used \$402.4 million in cash in investing activities. The majority was used to design, acquire and install solar energy systems and components under our long-term Customer Agreements.

Financing Activities

During the six months ended June 30, 2020, we generated \$507.7 million from financing activities. This was primarily driven by \$338.7 million in net proceeds from fund investors and \$156.9 million in net proceeds from debt, offset by \$5.5 million in repayments under finance lease obligations.

During the six months ended June 30, 2019, we generated \$508.5 million from financing activities. This was primarily driven by \$287.8 million in net proceeds from fund investors and \$212.3 million in net proceeds from debt, net of debt issuance costs and repayments, offset by \$6.4 million in payments for finance lease obligations.

Debt and Investing Fund Commitments

As of June 30, 2020, we had committed and available capital of approximately \$292.7 million that may only be used to purchase and install solar energy systems. We intend to establish new investment funds in the future, and we may also use debt, equity or other financing strategies to finance our business. For a discussion of the terms and conditions of debt instruments and changes thereof in the period, refer to Note 8, *Indebtedness*, to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations as of June 30, 2020 (in thousands):

	Payments Due by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	
	<i>(in thousands)</i>				
Contractual Obligations:					
Debt obligations (including future interest)	\$ 227,299	\$ 871,107	\$ 762,118	\$ 1,362,623	\$ 3,223,147
Purchase commitments	30,639	77,850	—	—	108,489
Distributions payable to noncontrolling interests and redeemable noncontrolling interests ⁽¹⁾	17,751	—	—	—	17,751
Financing lease obligations (including accrued interest)	8,574	8,695	150	—	17,419
Operating lease obligations, net of sublease income	11,935	19,667	10,065	6,640	48,307
Total contractual obligations	<u>\$ 296,198</u>	<u>\$ 977,319</u>	<u>\$ 772,333</u>	<u>\$ 1,369,263</u>	<u>\$ 3,415,113</u>

⁽¹⁾The foregoing table does not include the amounts we could be required to expend under our redemption obligations discussed above.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, to our 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 in the ordinary course of our business. Our primary exposure includes changes in interest rates because certain borrowings bear interest at floating rates based on LIBOR plus a specified margin. We sometimes manage our interest rate exposure on floating-rate debt by entering into derivative instruments to hedge all or a portion of our interest rate exposure in certain debt facilities. We do not enter into any derivative instruments for trading or speculative purposes. Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and operating expenses and reducing funds available for capital investments, operations and other purposes. For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our annual report on Form 10-K for the year ended December 31, 2019. Our exposures to market risk have not changed materially since December 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our "disclosure controls and procedures" as of the end of the period covered by this Quarterly Report on Form 10-Q, pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

In connection with that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of June 30, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15I and 15d-15I under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There was no change 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 period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 15, *Commitments and Contingencies*, to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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 the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Planned Acquisition of Vivint Solar, Inc.

Risks Relating to the Merger

The merger is subject to conditions, some or all of which may not be satisfied or completed on a timely basis, if at all. Failure to complete the merger could have material adverse effects on Sunrun and Vivint Solar.

The completion of the merger is subject to a number of conditions, including, among other things, the receipt of the Sunrun stockholder approval and the Vivint Solar stockholder approval and receipt of certain regulatory approvals, which make the completion and timing of the merger uncertain. The failure to satisfy all of the required conditions could delay the completion of the merger for a significant period of time or prevent it from occurring at all. There can be no assurance that the conditions to the completion of the merger will be satisfied or waived, that the merger will be completed or that the merger will be consummated as contemplated by the merger agreement.

If the merger is not completed or is completed on different terms than as contemplated by the merger agreement, each of Sunrun and Vivint Solar may be materially adversely affected and, without realizing any of the benefits of having completed the merger, will be subject to a number of risks, including the following:

- the market price of Sunrun common stock or Vivint Solar common stock could decline;
- reputational harm due to the adverse perception of any failure to successfully complete the merger could result;
- each of Sunrun and Vivint Solar could owe a substantial termination fee to the other party in specified circumstances;
- if the merger agreement is terminated and the Sunrun Board or the Vivint Solar Board seeks another business combination, Sunrun stockholders or Vivint Solar stockholders, as applicable, cannot be certain that Sunrun or Vivint Solar, as applicable, will be able to find a party willing to enter into a transaction on terms equivalent to or more attractive than the terms that the other party has agreed to in the merger agreement;
- time and resources, financial and otherwise, committed by Sunrun’s and Vivint Solar’s management to matters relating to the merger could otherwise have been devoted to pursuing other beneficial opportunities;
- Sunrun or Vivint Solar may experience negative reactions from the financial markets or from its customers, suppliers, strategic partners and employees; and

- Sunrun and Vivint Solar will each be required to pay its costs relating to the merger, such as, for example, legal, accounting, financial advisory and printing fees, whether or not the merger is completed.

Any delay in completing the merger may reduce or eliminate the expected benefits from the transaction.

The merger is subject to a number of conditions beyond Sunrun's and Vivint Solar's control that may prevent, delay or otherwise materially adversely affect its completion. Sunrun and Vivint Solar cannot predict whether and when these conditions will be satisfied. There can be no assurance that either Sunrun or Vivint Solar or both parties will waive any condition to closing that is not satisfied. Furthermore, the requirements for obtaining the required clearances and approvals and the time required to satisfy any other conditions to the closing could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause Sunrun or Vivint Solar not to realize some or all of the benefits that it expects to achieve if the merger is successfully completed within its expected timeframe. Further, delays in the completion of the merger could also result in additional transaction costs, loss of revenue or other negative effects associated with delay and uncertainty about the completion of the merger and could materially and adversely impact Sunrun's and Vivint Solar's ongoing business, financial condition, financial results and stock price following the completion of the merger.

The merger is subject to the expiration or termination of applicable waiting periods and the receipt of approvals, consents or clearances from regulatory authorities that may impose conditions that could have an adverse effect on Sunrun or Vivint Solar or, if such approvals, consents or clearances are not obtained, it could prevent completion of the merger.

Before the merger may be completed, any applicable waiting period (and any extension thereof) under the HSR Act relating to the completion of the merger must have expired or terminated. In deciding whether to terminate or allow the applicable waiting period to expire, the relevant governmental entities will consider the effect of the merger within their relevant jurisdiction, including, among other things, the impact on the parties' respective customers and suppliers. The terms and conditions of the authorizations and consents that are granted, if any, may impose requirements, limitations or costs or place restrictions on the conduct of Sunrun's or Vivint Solar's business or may materially delay the completion of the merger.

In addition, at any time before or after the completion of the merger, and notwithstanding the termination of applicable waiting periods, under the HSR Act, the applicable regulatory authorities or any state attorney general could take such action under antitrust or other applicable laws as such authority deems necessary or desirable in the public interest. Such actions could include, among other things, seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of the parties. In addition, in some circumstances, a third party could initiate a private action challenging, seeking to enjoin, or seeking to impose conditions on, the merger. Sunrun and Vivint Solar may not prevail and may incur significant costs in defending or settling any such action.

There can be no assurance that the conditions to the completion of the merger set forth in the merger agreement relating to applicable regulatory laws will be satisfied.

The merger agreement contains provisions that limit Sunrun's and Vivint Solar's ability to pursue alternatives to the merger, could discourage a potential third-party acquiror or merger partner from making an alternative transaction proposal, and provide that, in specified circumstances, each of Sunrun and Vivint Solar would be required to pay a termination fee.

The merger agreement contains provisions that make it more difficult for each of Sunrun and Vivint Solar to be acquired by, or enter into certain combination transactions with, a third party. The merger agreement contains certain provisions that restrict each of Sunrun's and Vivint Solar's ability to, among other things, solicit, initiate or knowingly encourage or facilitate any alternative transaction, engage in any discussions or negotiations with any third party concerning any alternative transaction, or provide nonpublic information to any third party. In addition, following receipt by either of Sunrun or Vivint Solar of any alternative transaction proposal that constitutes a "superior proposal," each of Vivint Solar or Sunrun, respectively, will have an opportunity to offer to modify the terms of the merger agreement before the Sunrun Board or the Vivint Solar Board, respectively, may withdraw or qualify its recommendation with respect to the Sunrun share issuance proposal or the Vivint Solar merger proposal, respectively, in favor of such superior proposal.

These provisions could discourage a potential third-party acquiror or merger partner that might have an interest in acquiring or combining with all or a significant portion of Sunrun or Vivint Solar or pursuing an alternative transaction from considering or proposing such a transaction.

In certain circumstances, upon termination of the merger agreement, Vivint Solar would be required to pay a termination fee of \$54 million to Sunrun, and in certain circumstances, upon termination of the merger agreement, Sunrun would be required to pay a termination fee of \$45 million or \$107 million to Vivint Solar, each as contemplated by the merger agreement.

If the merger agreement is terminated and either of Sunrun or Vivint Solar determines to seek another business combination transaction, Sunrun or Vivint Solar may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the merger.

Each party is subject to business uncertainties and contractual restrictions while the merger is pending, which could adversely affect each party's business and operations.

In connection with the pendency of the merger, it is possible that some customers, suppliers, strategic partners and other persons with whom Sunrun and/or Vivint Solar has a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with Sunrun or Vivint Solar, as the case may be, as a result of the merger or otherwise, which could negatively affect Sunrun's or Vivint Solar's respective revenues, earnings and/or cash flows, as well as the market price of Sunrun common stock or Vivint Solar common stock, regardless of whether the merger is completed.

Until the merger is completed, the merger agreement restricts each of Sunrun and Vivint Solar from taking specified actions without the consent of the other party, and requires each of Sunrun and Vivint Solar to operate in the ordinary and usual course of business consistent with past practice. Sunrun and Vivint Solar are subject to a number of interim operating covenants relating to, among other things, amendment of organizational documents, payment of dividends or entry into certain acquisitions or investments. Such limitations could adversely affect each of Sunrun's and Vivint Solar's business and operations prior to the completion of the merger.

The merger will involve substantial costs.

Sunrun and Vivint Solar have incurred and expect to continue to incur substantial costs and expenses relating directly to the merger and the Sunrun share issuance, including fees and expenses payable to financial advisors, other professional fees and expenses, insurance premium costs, fees and costs relating to regulatory filings and notices, SEC filing fees, printing and mailing costs and other transaction-related costs, fees and expenses. If the merger is not completed, Sunrun and Vivint Solar will have incurred substantial expenses for which no ultimate benefit will have been received by either company.

Risks Related to Our Business and Our Industry

The COVID-19 pandemic could have an adverse impact on our business, operations and the markets and communities in which we operate. Efforts to mitigate or contain the pandemic and the resulting weakened economic conditions may disrupt and adversely affect our business.

The COVID-19 pandemic is having an unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis, and has impacted our business and created significant uncertainties for our industry and the economy in general. As COVID-19 continues to spread and impact the country, effects such as the widespread growth in infections, travel restrictions, quarantines, return-to-work restrictions, new and changing government regulations, and site closures have impacted and may continue to impact our ability to staff sales and operations centers and install and maintain solar energy systems in the field.

Due to these impacts and uncertainties, we have run multiple scenarios to stress test our business and operations to evaluate the impact of significant reductions in demand, and restraints or regulations limiting our ability to sell and/or install our products in some or all jurisdictions in which we operate. Given recent developments and mitigation measures that restrict certain paths to market our services, we have also accelerated our transition to a more digital sales model and reduced the size of certain parts of our workforce, particularly in our retail sales channels. We believe that the actions we have taken, and may continue to take in the future, to address these

impacts will better position our company to manage these risks; however, they may also disrupt our operations, impede our productivity, or otherwise be ineffective in a rapidly changing environment.

We are further responding by taking steps to mitigate the potential risks to us posed by the spread of COVID-19. We have taken extra precautions for our employees who work in the field and for employees who continue to work in our facilities, and we have implemented work-from-home policies where appropriate. We have also implemented several protocols aimed at safeguarding customers. We provide a critical service to our customers, which means that we must take steps aimed at keeping our employees and customers safe and minimizing unnecessary risk of exposure to the virus.

In an effort to curtail the spread of the disease, various state and local jurisdictions have adopted executive orders, shelter-in-place orders, quarantines, and similar government orders and restrictions on the operations of many businesses and industries. In many such jurisdictions, we have been deemed an essential service, allowing us to continue our installation and field service operations. However, earlier this year certain jurisdictions temporarily enacted restrictions that prevented our field sales and installations, and it is possible that other jurisdictions could enact similar restrictions or curtail the scope of currently permitted operations.

The COVID-19 pandemic has also led to significant volatility in global financial markets, which could negatively affect our cost of and access to capital and could have an adverse impact on customer demand and the financial health and credit risk associated with our customers. Future disruptions or instability in capital markets could also negatively impact our ability to raise capital from third parties, such as tax equity partners, to grow our business. In addition, a recession or market correction resulting from the COVID-19 pandemic could adversely affect our business and the value of our common stock.

The extent to which COVID-19 may impact our supply chain is uncertain, and we are also working closely with our solar partners and suppliers to develop contingency plans for potential operations and supply chain interruptions.

The global COVID-19 pandemic continues to rapidly evolve. The ultimate impact of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, operations or the global economy as a whole. However, these effects could have a material impact on our operations. We will continue to monitor developments affecting our workforce, our customers, and our business operations generally and will take additional actions that we determine are necessary in order to mitigate the impacts.

We need to raise capital to finance the continued growth of our operations and solar service business. If capital is not available to us on acceptable terms, as and when needed, our business and prospects would be materially and adversely impacted. In addition, our business is affected by general economic conditions and related uncertainties affecting markets in which we operate. Volatility in current economic conditions could adversely impact our business, including our ability to raise financing.

Our future success depends on our ability to raise capital from third parties to grow our business. To date, we have funded our business principally through low-cost tax equity investment funds. If we are unable to establish new investment funds when needed, or upon desirable terms, the growth of our solar service business would be impaired. Changes in tax law could also affect our ability to establish such tax equity investment funds, impact the terms of existing or future funds, or reduce the pool of capital available for us to grow our business.

The contract terms in certain of our existing investment fund documents contain various conditions with respect to our ability to draw on financing commitments from the fund investors, including conditions that restrict our ability to draw on such commitments if an event occurs that could reasonably be expected to have a material adverse effect on the fund or, in some instances, us. If we are not able to satisfy such conditions due to events related to our business, a specific investment fund, developments in our industry, including tax or regulatory changes, or otherwise, and as a result, we are unable to draw on existing funding commitments, we could experience a material adverse effect on our business, liquidity, financial condition, results of operations and prospects. If any of the investors that currently invest in our investment funds decide not to invest in future investment funds to finance our solar service offerings due to general market conditions, concerns about our business or prospects or any other reason, or materially change the terms under which they are willing to provide

future financing, we would need to identify new investors to invest in our investment funds and our cost of capital may increase.

In addition, our business and results of operations are materially affected by conditions in the global capital markets and the economy . A general slowdown or volatility in current economic conditions, stemming from the COVID-19 pandemic, the level of U.S. national debt, currency fluctuations, unemployment rates, the availability and cost of credit, the U.S. housing market, tariffs, trade wars, inflation levels, interest rates, energy costs and concerns over a slowing economy, could adversely affect our business, including our ability to raise financing.

There can be no assurance that we will be able to continue to successfully access capital in a manner that supports the growth of our business. Certain sources of capital may not be available in the future, and competition for any available funding may increase. We cannot be sure that we will be able to maintain necessary levels of funding without incurring high funding costs, unfavorable changes in the terms of funding instruments or the liquidation of certain assets. 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 those provided to our competitors or currently provided to us. If we are unable to arrange new or alternative methods of financing on favorable terms, our business, liquidity, financial condition, results of operations and prospects could be materially and adversely affected.

Rising interest rates will adversely impact our business.

Rising interest rates may increase our cost of capital. Our future success depends on our ability to raise capital from fund investors and obtain secured lending to help finance the deployment of our solar service offerings. Part of our business strategy is to seek to reduce our cost of capital through these arrangements to improve our margins, offset reductions in government incentives and maintain the price competitiveness of our solar service offerings. Rising interest rates may have an adverse impact on our ability to offer attractive pricing on our solar service offerings to customers, which could negatively impact sales of our solar energy offerings.

The majority of our cash flows to date have been from solar service offerings under Customer Agreements that have been monetized under various investment fund structures. One of the components of this monetization is the present value of the payment streams from customers who enter into these Customer Agreements. If the rate of return required by capital providers, including debt providers, 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. Any measures that we could take to mitigate the impact of rising interest rates on our ability to secure third-party financing could ultimately have an adverse impact on the value proposition that we offer customers.

The solar energy industry is an emerging market that is constantly evolving and may not develop to the size or at the rate we expect.

The solar energy industry is an emerging and constantly evolving market opportunity. We believe the solar energy industry will still take several years to fully develop and mature, and we cannot be certain that the market will grow to the size or at the rate we expect. For example, we have experienced increases in cancellations of our Customer Agreements in certain geographic markets during certain periods in our operating history. Any future growth of the solar energy market and the success of our solar service offerings depend on many factors beyond our control, including recognition and acceptance of the solar service market by consumers, the pricing of alternative sources of energy, a favorable regulatory environment, the continuation of expected tax benefits and other incentives, and our ability to provide our solar service offerings cost-effectively. If the markets for solar energy do not develop to the size or at the rate we expect, our business may be adversely affected.

Solar energy has yet to achieve broad market acceptance and depends in part on continued support in the form of rebates, tax credits and other incentives from federal, state and local governments. If this support diminishes materially, our ability to obtain external financing on acceptable terms, or at all, could be materially adversely affected. These types of funding limitations could lead to inadequate financing support for the anticipated growth in our business. Furthermore, growth in residential solar energy depends in part on macroeconomic conditions, retail prices of electricity and customer preferences, each of which can change quickly. Declining macroeconomic conditions, including in the job markets and residential real estate markets,

could contribute to instability and uncertainty among customers and impact their financial wherewithal, credit scores or interest in entering into long-term contracts, even if such contracts would generate immediate and long-term savings.

Furthermore, market prices of retail electricity generated by utilities or other energy sources could decline for a variety of reasons, as discussed further below. Any such declines in macroeconomic conditions, changes in retail prices of electricity or changes in customer preferences would adversely impact our business.

Our ability to provide our solar service offerings to customers on an economically viable basis depends in part on our ability to finance these systems with fund investors who seek particular tax and other benefits.

Our solar service offerings have been eligible for federal commercial investment tax credits, U.S. Treasury grants and other tax benefits. We have relied on, and will continue to rely on, tax equity investment funds, which are financing structures that monetize a substantial portion of those benefits, in order to finance our solar service offerings. If, for any reason, we are unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain our solar service offerings for customers on an economically viable basis.

The availability of this tax-advantaged financing depends upon many factors, including:

- our ability to compete with other solar 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 (including the anticipated step-down of the Commercial ITC described below).

As of January 1, 2020, the federal government offers a 26% investment tax credit ("Commercial ITC") under Section 48(a) of the Internal Revenue Code of 1986, as amended (the "Code"), for the installation of certain solar power facilities owned for business purposes. The depreciable basis of a solar facility is also reduced by 50% of the tax credit claimed. Similarly, the federal government currently offers a 26% personal income tax credit under Section 25D of the Internal Revenue Code ("Residential Energy Efficiency Tax Credit"), for the installation of certain solar power facilities owned by residential taxpayers, which is applicable to customers who purchase a solar system outright as opposed to entering into a Customer Agreement. Both the Residential Energy Efficiency Tax Credit and the Commercial ITC will step down to 22% for solar property commencing construction in 2021. In 2022, the Residential Energy Efficiency Tax Credit will expire and the Commercial ITC will step down to 10%.

Further reductions in the Commercial ITC as scheduled may impact the attractiveness of solar energy to certain tax equity investors and could potentially harm our business. Obtaining tax equity funding (and tax equity funding on advantageous terms) may become more challenging. Additionally, the benefits of the Commercial ITC have historically enhanced our ability to provide competitive pricing for customers. Further reductions in, eliminations of, or expirations of, governmental incentives such as the Residential Energy Efficiency Tax Credit could reduce the number of customers who choose to purchase our solar energy systems.

The IRS provided taxpayers a safe harbor opportunity to retain access to the pre-2020 30% Commercial ITC amount through specific rules released in Notice 2018-59. We have sought to avail ourselves of the safe harbor in order to retain the 30% Commercial ITC that was available in 2019 with respect to approximately 500 MW of Projects by incurring certain costs and taking title to equipment in 2019. We also plan to similarly further utilize the safe harbor program for solar equipment purchases in future years if the Commercial ITC step down continues. While we have attempted to ensure that these transactions will comply with guidance issued by the IRS, this guidance is relatively limited and potentially subject to change. Either the IRS or our financing partners could challenge whether the purchased equipment is properly qualified for safe harbor tax treatment, which could either result in lower tax equity advances or trigger indemnification obligations to our tax equity investors. It is also possible that we will not be able to use all of the equipment purchased through this safe harbor program.

Additionally, potential investors must remain satisfied that the funding structures that we offer make the tax benefits associated with solar energy systems available to these investors, which depends on the investors' assessment of the tax law, the absence of any unfavorable interpretations of that law and the continued application of existing tax law and interpretations to our funding structures. Changes in existing law or interpretations of existing law by the Internal Revenue Service (the "IRS") and the courts could reduce the willingness of investors to invest in funds associated with these solar energy systems. Moreover, corporate tax rate reductions could reduce the appetite for tax benefits overall, which could reduce the pool of available funds. Additionally, certain tax deductions, such as depreciation, will have less value to investors, requiring additional cash to be paid to investors to meet return demands. Accordingly, we cannot assure you that this type of financing will continue to be available to us. New investment fund structures or other financing mechanisms may become available, but if we are unable to take advantage of these fund structures and financing mechanisms, we may be at a competitive disadvantage. If, for any reason, we are unable to finance our solar service offerings through tax-advantaged structures or if we are unable to realize or monetize Commercial ITCs or other tax benefits, we may no longer be able to provide our solar service offerings to new customers on an economically viable basis, which would have a material adverse effect on our business, financial condition and results of operations.

If the Internal Revenue Service makes 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 fund investors, and our business, financial condition and prospects may be materially and adversely affected.

We and our fund investors claim the Commercial 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 determine the fair market values we report for claiming Commercial ITCs and U.S. Treasury grants. 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 IRS may also subsequently audit the fair market value and determine that amounts previously awarded constitute taxable income for U.S. federal income tax purposes. With respect to Commercial ITCs, the IRS 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 these circumstances to be less than what we reported, we may owe 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. If the IRS further disagrees now or in the future with the amounts we reported regarding the fair market value of our solar energy systems, it could have a material adverse effect on our business, financial condition and prospects. One of our investors is currently being audited by the IRS in an audit involving a review of the fair market value determination of our solar energy systems. If this audit results in an adverse finding, we may be subject to an indemnity obligation to our investor. The IRS audit is still ongoing, and we are unable to determine the potential tax liabilities as of each balance sheet date. We purchased an insurance policy in 2018 insuring us and related parties for additional taxes owed in respect of lost Commercial ITCs, gross-up costs and expenses incurred in defending the types of claims described above. However, this policy only covers certain investment funds and has negotiated exclusions from, and limitations to, coverage and therefore may not cover us for all such lost Commercial ITCs, taxes, costs and expenses.

We have historically benefited from declining costs in our industry, and our business and financial results may be harmed not only as a result of any increases in costs associated with our solar service offerings but also any failure of these costs to continue to decline as we currently expect. If we do not reduce our cost structure in the future, our ability to continue to be profitable may be impaired.

Declining costs related to raw materials, manufacturing and the sale and installation of our solar service offerings have been a key driver in the pricing of our solar service offerings and, more broadly, customer adoption of solar energy. While historically the prices of solar panels and raw materials have declined, the cost of solar panels and raw materials could increase in the future, and such products' availability could decrease, due to a variety of factors, including restrictions stemming from the COVID-19 pandemic, tariffs and trade barriers, export regulations, regulatory or contractual limitations, industry market requirements and changes in technology and industry standards.

For example, we and our solar partners purchased a significant portion of the solar panels used in our solar service offerings from overseas manufacturers. In January 2018, in response to a petition filed under Section 201 of the Trade Act of 1974, the President imposed four-year tariffs on imported solar modules and

imported solar cells not assembled into other products (the "Section 201 Module Tariffs") that apply to all imports above a 2.5 gigawatts (GW) annual threshold. The Section 201 Module Tariffs were 30% in 2018 and stepped down by 5% annually in the second, third and fourth years.

The United States and China each imposed additional new tariffs in 2018 on various products imported from the other country . These include an additional 25% tariff on solar panels and cells that are manufactured in China and a tariff on inverters, certain batteries and other electrical equipment initially set at 10%. In May 2019, the 10% tariff was increased to 25%, and the current administration has threatened additional incremental increases. The United States also has, from time to time, announced potential tariffs on goods imported from other countries. We cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. The tariffs described above, the adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs, trade agreements or related policies have the potential to adversely impact our supply chain and access to equipment, our costs and ability to economically serve certain markets. Any such cost increases or decreases in availability could slow our growth and cause our financial results and operational metrics to suffer.

Other factors may also impact costs, such as our choice to make significant investments to drive growth in the future .

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

As of June 30, 2020, a substantial majority of states have adopted net metering policies. Net metering policies are designed to allow homeowners to serve their own energy load using on-site generation. Electricity that is generated by a solar energy system and consumed on-site avoids a retail energy purchase from the applicable utility, and excess electricity that is exported back to the electric grid generates a retail credit within a homeowner's monthly billing period. At the end of the monthly billing period, if the homeowner has generated excess electricity within that month, the homeowner typically carries forward a credit for any excess electricity to be offset against future utility energy purchases. At the end of an annual billing period or calendar year, utilities either continue to carry forward a credit, or reconcile the homeowner's final annual or calendar year bill using different rates (including zero credit) for the exported electricity.

Utilities, their trade associations, and fossil fuel interests in the country are currently challenging net metering policies, and seeking to eliminate them, cap them, or impose charges on homeowners that have net metering. For example, on April 14, 2020, the New England Ratepayers Association filed a petition with the Federal Energy Regulatory Commission ("FERC"), asking it to assert exclusive federal jurisdiction over state net metering programs. Such a declaratory order, if granted, would have encouraged legal challenges to state net metering programs and could have reduced the bill credits customers receive for the electricity they export to the grid. On July 16, 2020, FERC dismissed the petition unanimously on procedural grounds, but at least one commissioner indicated that FERC could revisit the issue of net metering jurisdiction in the future.

In October 2015 the Hawaii Public Utilities Commission (the "Hawaii Commission") issued an order that eliminates net metering for all new homeowners. All existing net metering customers and customers who submitted net metering applications before October 12, 2015 are grandfathered indefinitely under the old rules. Interim tariffs currently exist in Hawaii. Permanent tariffs currently under consideration by the Hawaii Commission, and customers on the interim tariff may be switched over to these newer tariffs. We continue to sell, build, and service systems in Hawaii. The new programs in Hawaii are more complex, which decreases certainty in the economic value proposition we provide to customers and potentially slows down market growth. Recent proposals submitted by utility companies have proposed significant changes to the marketplace, such as utility ownership/control over solar systems, which may further detrimentally impact the economic value proposition to customers and slow down market growth.

In addition, in early 2016 we ceased new installations in Nevada in response to the elimination of net metering by the Public Utilities Commission of Nevada ("PUCN"). However, in September 2016, the PUCN issued an order grandfathering in customers under the prior net metering rules that had installed a solar energy system or had submitted a net metering application prior to December 31, 2015. Furthermore, in June 2017, Nevada enacted legislation, AB 405, that restores net metering at a reduced credit and guarantees new

customers receive the net metering rate in effect at the time they applied for interconnection for 20 years. As another example, in December 2016, the Arizona Corporation Commission ("ACC") issued a decision to eliminate net metering for new solar customers and replace it with a net-feed in tariff (a fixed export rate). In May 2018, Connecticut enacted legislation to end the state's net metering program upon the conclusion of the Residential Solar Investment Program, and replace it with two yet-to-be-determined rate structures. On June 28, 2019, legislation was signed into law delaying the implementation of these programs and continuing Connecticut's net metering program through the end of 2021.

Some states set limits on the total percentage of a utility's customers that can adopt net metering. For example, South Carolina had a net metering cap that was eliminated in May 2019 when South Carolina enacted the Energy Freedom Act. The new law allows for regulatory review of net metering after two years, with such review set to occur in June 2021. Illinois has a threshold that triggers a commission process to determine what comes after net metering rate design. New Jersey currently has no net metering cap; however, it has a threshold that triggers commission review of its net metering policy. These policies could be subject to change in the future, and other states we serve now or in the future may adopt net metering caps. If the net metering caps in these jurisdictions are reached without an extension of net metering policies, homeowners in those jurisdictions will not have access to the economic value proposition net metering provides. Our ability to sell our solar service offerings may be adversely impacted by the failure to extend existing limits to net metering or the elimination of currently existing net metering policies. The failure to adopt a net metering policy where it currently is not in place would pose a barrier to entry in those states. Additionally, the imposition of charges that only or disproportionately impact homeowners that have solar energy systems, or the introduction of rate designs mentioned above, would adversely impact our business.

California's Public Utilities Commission ("CPUC") has made changes to rate design for solar customers, such as adopting "time of use" rates with different electricity prices during peak and off peak hours, as well as modifications to the minimum bill for solar customers. The CPUC is expected to revisit its net metering policy in a proceeding that is expected to begin in the fourth quarter of 2020.

Electric utility statutes and regulations and changes to such statutes or regulations may present technical, regulatory and economic barriers to the purchase and use of our solar service offerings that may significantly reduce demand for such offerings.

Federal, state and local government statutes and regulations concerning electricity heavily influence the market for our solar service offerings and are constantly evolving. These statutes, regulations, and administrative rulings relate to electricity pricing, net metering, consumer protection, incentives, taxation, competition with utilities, and the interconnection of homeowner-owned and third party-owned solar energy systems to the electrical grid. These statutes and regulations are constantly evolving. Governments, often acting through state utility or public service commissions, change and adopt different rates for residential customers on a regular basis and these changes can have a negative impact on our ability to deliver savings to customers.

In addition, many utilities, their trade associations, and fossil fuel interests in the country, each of which has significantly greater economic and political resources than the residential solar industry, are currently challenging solar-related policies to reduce the competitiveness of residential solar energy. Any adverse changes in solar-related policies could have a negative impact on our business and prospects.

We face competition from traditional energy companies as well as solar and other renewable energy companies.

The solar energy industry is 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 established utilities that supply energy to homeowners by traditional means. We compete with these utilities primarily based on price, predictability of price, and the ease by which homeowners can switch to electricity generated by our solar service offerings. If we cannot offer compelling value to customers based on these factors, then our business and revenue 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. Furthermore, these competitors are able to devote substantially more resources and funding to regulatory and lobbying efforts.

Utilities could also offer other value-added products or services that could help them compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity are non-solar, which may allow utilities to sell electricity more cheaply than we can. Moreover, regulated utilities are increasingly seeking approval to "rate-base" their own residential solar and storage businesses. Rate-basing means that utilities would receive guaranteed rates of return for their solar and storage businesses. This is already commonplace for utility scale solar projects and commercial solar projects. While few utilities to date have received regulatory permission to rate-base residential solar or storage, our competitiveness would be significantly harmed should more utilities receive such permission because we do not receive guaranteed profits for our solar service offerings.

We also face competition from other residential solar service providers. Some of these competitors have a higher degree of brand name recognition, differing business and pricing strategies, and greater capital resources than we have, as well as extensive knowledge of our target markets. If we are unable to establish or maintain a consumer brand that resonates with customers, maintain high customer satisfaction, or compete with the pricing offered by our competitors, our sales and market share position may be adversely affected, as our growth is dependent on originating new customers. We also face competitive pressure from companies that may offer lower-priced consumer offerings than we do.

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

Furthermore, we face competition from purely finance-driven nonintegrated competitors that subcontract out the installation of solar energy systems, from installation businesses (including solar partners) that seek financing from external parties, from large construction companies and from electrical and roofing companies. In addition, local installers that might otherwise be viewed as potential solar partners may gain market share by being able to be the first providers in new local markets. Some of these competitors may provide energy at lower costs than we do. Finally, as declining prices for solar panels and related equipment has resulted in an increase in consumers purchasing instead of leasing solar energy systems, we face competition from companies that offer consumer loans for these solar panel purchases.

As the solar industry grows and evolves, we will continue to face existing competitors as well as new competitors who are not currently in the market (including those resulting from the consolidation of existing competitors) that achieve significant developments in alternative technologies or new products such as storage solutions, loan products or other programs related to third-party ownership. Our failure to adapt to changing market conditions, to compete successfully with existing or new competitors and to adopt new or enhanced technologies could limit our growth and have a material adverse effect on our business and prospects.

Regulations and policies related to rate design could deter potential customers from purchasing our solar service offerings, reduce the value of the electricity our systems produce, and reduce any savings that our customers could realize from our solar service offerings.

All states regulate investor-owned utility retail electricity pricing. In addition, there are numerous publicly owned utilities and electric cooperatives that establish their own retail electricity pricing through some form of regulation or internal process. These regulations and policies could deter potential customers from purchasing our solar service offerings. For example, some utilities in states such as Arizona and Utah have sought and secured rate design changes that reduce credit for residential solar exports to below the retail rate and impose new charges for rooftop solar customers. Utilities in additional states may follow suit. Such rate changes can include changing rates to charge lower volume-based rates—the rates charged for kilowatt hours of electricity purchased by a residential customer—while raising unavoidable fixed charges that a homeowner is subject to when they purchase solar energy from third parties, and levying charges on homeowners based on their point of maximum demand during a month (referred to as “demand charge”). For example, the Arizona Public Service Company offers residential demand charge rate plans and if our solar customers have subscribed to those plans, they may not realize typical savings from our offerings. These forms of rate design could adversely impact our business by reducing the value of the electricity our solar energy systems produce and reducing any savings customers realize by purchasing our solar service offerings. These proposals could continue or be replicated in other states. In addition to changes in general rates charged to all residential customers, utilities are increasingly seeking solar-specific charges (which may be fixed charges, capacity-based charges, or other rate charges). Any of these changes could materially reduce the demand for our offerings and could limit the number of markets in which our offerings are competitive with electricity provided by the utilities.

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

Our business depends on government policies that promote and support solar energy and enhance the economic viability of owning solar energy systems. U.S. federal, state and local governmental bodies provide incentives to owners, distributors, installers and manufacturers of solar energy systems to promote solar energy. These incentives include Commercial ITCs, as discussed above, as well as other tax credits, rebates and SRECs associated with solar energy generation. Some markets, such as New Jersey and Maryland, currently utilize SRECs. SRECs can be volatile and could decrease over time as the supply of SREC-producing solar energy systems installed in a particular market increases. For example, in New Jersey, because of the substantial supply of solar energy systems installed, the state was on the cusp of reaching the solar carve-out under the state’s Renewable Portfolio Standard. In May 2018, legislation was enacted to expand New Jersey’s solar carve-out to 5.1% of kilowatt hours of electricity sold in the state, and state regulators project that such threshold will be met in April 2020. In December 2019, the state regulators adopted a transition program to follow the current SREC program that will be based on a fixed price SREC model and which is anticipated to be available to replace the current SREC program. We rely on these incentives to lower our cost of capital and to attract investors, all of which enable us to lower the price we charge customers for our solar service offerings. These incentives have had a significant impact on the development of solar energy but they could change at any time, especially in light of the recent change in administration, as further described below. These incentives may also expire on a particular date (as discussed above with respect to the Commercial ITC), end when the allocated funding is exhausted, or be reduced, terminated or repealed without notice. The financial value of certain incentives may also decrease over time.

After the Tax Act’s enactment in December 2017, the corporate tax rate was reduced to 21% and now limits interest deductibility and allows full and immediate expensing of capital costs. A reduction in the corporate tax rate and the expensing of capital costs could diminish the capacity of potential fund investors to benefit from tax incentives, and could require additional cash to be distributed to such fund investors in lieu of tax benefits. Furthermore, the current administration has overturned and modified policies of, and regulations enacted by, the prior administration that placed limitations on coal and gas electric generation, mining and/or exploration. Any effort to overturn federal and state laws, regulations or policies that are supportive of solar energy generation or that remove costs or other limitations on other types of energy generation that compete with solar energy projects could materially and adversely affect our business.

Our business model also relies on multiple tax exemptions offered at the state and local levels. For example, some states have property tax exemptions that exempt the value of solar energy systems in determining values for calculation of local and state real and personal property taxes. State and local tax exemptions can be changed by state legislatures and other regulators, and if solar energy systems were not exempt from such taxes, the property taxes payable by customers would be higher, which could offset any potential savings our solar service offerings could offer. Similarly, if state or local legislatures or tax administrators impose property taxes on third-party owners of solar energy systems, solar companies like us would be subject to higher costs. For example, South Carolina counties do not currently assess property tax on customer-owned residential solar energy systems; however, third-party-owned systems are subject to business personal property taxes. In Connecticut, a number of municipalities have assessed property tax on third-party-owned solar energy systems, despite an applicable exemption under state law. In Texas, there is inconsistency between counties on how third-party-owned systems are subjected to the state solar property tax exemption. In general, we rely on certain state and local tax exemptions that apply to the sale of equipment, sale of power, or both. These state and local tax exemptions can be changed by state legislatures, regulators, tax administrators, or court rulings and such changes could adversely impact our business and the profitability of our offerings in certain markets.

We are not currently regulated as a utility under applicable laws, but we may be subject to regulation as a utility in the future or become subject to new federal and state regulations for any additional solar service offerings we may introduce in the future.

Most federal, state, and municipal laws do not currently regulate us as a utility. As a result, we are not subject to the various regulatory requirements applicable to U.S. utilities. However, any federal, state, local or other applicable 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. These regulatory requirements could include restricting our sale of electricity, as well as regulating the price of our solar service offerings. For example, the New York Public Service Commission and the Illinois Power Agency have issued orders regulating distributed energy providers in certain ways as if they were energy service companies, which increases the regulatory compliance burden for us in such states. If we become subject to the same regulatory authorities as utilities in other states or if new regulatory bodies are established to oversee our business, our operating costs could materially increase.

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

Our Customer Agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. These challenges pertain to issues such as whether third-party-owned systems qualify for the same rebates, tax exemptions or other non-tax incentives available for homeowner-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. Adverse regulatory treatment of third-party ownership arrangements could reduce demand for our solar service offerings, adversely impact our access to capital and cause us to increase the price we charge customers for energy.

Interconnection limits or circuit-level caps imposed by regulators may significantly reduce our ability to sell electricity from our solar service offerings in certain markets or slow interconnections, harming our growth rate and customer satisfaction scores.

Interconnection rules establish the circumstances in which rooftop solar will be connected to the electricity grid. Interconnection limits or circuit-level caps imposed by regulators may curb our growth in key markets. Utilities throughout the country have different rules and regulations regarding interconnection and some utilities cap or limit the amount of solar energy that can be interconnected to the grid. Our systems do not provide power to customers until they are interconnected to the grid.

Interconnection regulations are based on claims from utilities regarding the amount of solar energy that can be connected to the grid without causing grid reliability issues or requiring significant grid upgrades. Although recent rulings from the Hawaii Utilities Commission have helped resolve some problems, historically, interconnection limits or circuit-level caps have slowed the pace of our installations in Hawaii. Similar interconnection limits could slow our future installations in Hawaii or other markets, harming our growth rate and customer satisfaction scores. Similarly, the California and Hawaii Public Utilities Commissions recently required the activation of some advanced inverter functionality to head off presumed grid reliability issues, which may require more expensive equipment and more oversight of the operation of the solar energy systems over time. As a result, these regulations may hamper our ability to sell our offerings in certain markets and increase our costs, adversely affecting our business, operating results, financial condition and prospects.

We may be required to make payments or contribute assets to our investors upon the occurrence of certain events, including one-time reset or true-up payments or upon the exercise of a redemption option by one of our investors.

Our fund investors typically advance capital to us based on production capacity estimates. The models we use to calculate prepayments in connection with certain of our investment funds will be updated for each investment fund at a fixed date occurring after placement in service of all applicable solar energy systems or an agreed upon date (typically within the first year of the applicable 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. In some cases, these true-up models will also incorporate any changes in law, which would include any reduction in rates (and thus any reduction in the benefits of depreciation). As a result of this true-up, applicable payments are resized, and we may be obligated to refund a portion of the investor's prepayments or to contribute additional assets to the investment fund. In addition, certain of our fund investors have the right to require us to purchase their interests in the investment funds after a set period of time, generally at a price equal to the greater of a set purchase price or fair market value of the interests at the time of the repurchase. Any significant refunds, capital contributions or purchases that we may be required to make could adversely affect our liquidity or financial condition.

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 solar energy from us is primarily driven by a desire to lower electricity costs. Decreases in the retail prices of electricity from utilities or other 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 or other natural resources as a result of new drilling techniques or other technological developments, a relaxation of associated regulatory standards, or broader economic or policy developments;
- energy conservation technologies and public initiatives to reduce electricity consumption; and
- development of new energy technologies that provide less expensive energy.

A reduction in utility electricity prices would make the purchase of our solar service offerings less attractive. If the retail price of energy available from utilities were to decrease due to any of these or other reasons, we would be at a competitive disadvantage. As a result, we may be unable to attract new customers and our growth would be limited.

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

Our limited operating history, particularly as a publicly traded company, combined with the rapidly evolving and competitive nature of our industry, may not provide an adequate basis for you to evaluate our results of operations and business prospects. We cannot assure you that we will continue to be successful in generating revenue from our current solar service offerings or from any additional solar service offerings we may introduce in the future. In addition, we only have limited insight into emerging trends, such as alternative energy sources, commodity prices in the overall energy market, and legal and regulatory changes that impact the solar industry, any of which could adversely impact our business, prospects and results of operations.

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

We have incurred net losses in the past and may continue to incur net losses as we increase our spending to finance the expansion of our operations, expand our installation, engineering, administrative, sales and marketing staffs, increase spending on our brand awareness and other sales and marketing initiatives, make significant investments to drive future growth in our business 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 results of operations. Our ability to sustain profitability depends on a number of factors, including but not limited to:

- mitigating any potential impact of the COVID-19 pandemic on our business;
- growing our customer base;
- finding investors willing to invest in our investment funds on favorable terms;
- maintaining or further lowering our cost of capital;
- reducing the cost of components for our solar service offerings;
- growing and maintaining our channel partner network;
- maintaining high levels of product quality, performance and customer satisfaction;
- growing our direct-to-consumer business to scale; and
- reducing our operating costs by lowering our customer acquisition costs and optimizing our design and installation processes and supply chain logistics.

Even if we do sustain profitability, we may be unable to achieve positive cash flows from operations in the future.

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

Our quarterly results of operations are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past and expect these fluctuations to continue. However, given that we are operating in a rapidly changing industry, those fluctuations may be masked by our recent growth rates and thus may not be readily apparent from our historical results of operations. As such, our past quarterly results of operations may not be good indicators of likely future performance.

In addition to the other risks described in this “Risk Factors” section, as well as the factors discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section, the following factors could cause our results of operations and key performance indicators to fluctuate:

- the expiration, reduction or initiation of any governmental tax rebates, tax exemptions or incentives;
- significant fluctuations in customer demand for our solar service offerings or fluctuations in the geographic concentration of installations of solar energy systems;
- changes in financial markets, which could restrict our ability to access available and cost-effective financing sources;
- seasonal, environmental or weather conditions that impact sales, energy production and system installations;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- announcements by us or our competitors of new products or services, 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;
- changes in regulatory policy related to solar energy generation;
- the loss of one or more key partners or the failure of key partners to perform as anticipated;
- actual or anticipated developments in our competitors’ businesses or the competitive landscape;
- actual or anticipated changes in our growth rate;
- general economic, industry and market conditions, including as a result of the COVID-19 pandemic; and
- changes to our cancellation rate.

In the past, we have experienced seasonal fluctuations in sales and installations, particularly in the fourth quarter . This has been the result of decreased sales through the holiday season and weather-related installation delays. Our incentives revenue is also highly variable due to associated revenue recognition rules, as discussed in greater detail in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Seasonal and other factors may also contribute to variability in our sales of solar energy systems and product sales. 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 or key operating metrics in one or more future quarters may fall short of the expectations of investors and financial analysts. If that occurs, the trading price of our common stock could decline and you could lose part or all of your investment.

Our actual financial results may differ materially from any guidance we may publish from time to time.

We have in the past and may, from time to time, provide guidance regarding our future performance that represents our management's estimates as of the date such guidance is provided. Any such guidance is based upon a number of assumptions with respect to future business decisions (some of which may change) and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies (many of which are beyond our control, including those related to the COVID-19 pandemic). Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions that inform such guidance will not materialize or will vary significantly from actual results. Our ability to meet deployment volume, cost, net present value or any other forward-looking guidance is impacted by a number of factors including, but not limited to, the number of our solar energy systems sold versus leased, changes in installation costs, the availability of additional financing on acceptable terms, changes in the retail prices of traditional utility generated electricity, the availability of rebates, tax credits and other incentives, changes in policies and regulations including net metering and interconnection limits or caps, the availability of solar panels and other raw materials, as well as the other risks to our business that are described in this section. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date such guidance is provided. Actual results may vary from such guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors should not place undue reliance on our financial guidance, and should carefully consider any guidance we may publish in context.

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 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 have been in the past, and may in the future, be required to expand, train and manage our growing employee base and solar partners. 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, including additional costs for the expansion of our employee base and our solar partners as well as marketing and branding costs. 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 solar service offerings or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

Servicing our debt requires a significant amount of cash to comply with certain covenants and satisfy payment obligations, and we may not have sufficient cash flow from our business to pay our substantial debt and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

We have substantial amounts of debt, including the working capital facility and the non-recourse debt facilities entered into by our subsidiaries, as discussed in more detail in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures to operate our business. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to timely repay or otherwise refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations and negatively impact our financial condition and prospects.

We expect to incur substantially more debt in the future, which could intensify the risks to our business.

We and our subsidiaries expect to incur additional debt in the future, subject to the restrictions contained in our debt instruments. Our existing debt arrangements restrict our ability to incur additional indebtedness, including secured indebtedness, and we may be subject to similar restrictions under the terms of future debt arrangements. These restrictions could inhibit our ability to pursue our business strategies. Increases in our existing debt obligations would further heighten the debt related risk discussed above.

Furthermore, there is no assurance that we will be able to enter into new debt instruments on acceptable terms or at all. If we were unable to satisfy financial covenants and other terms under existing or new instruments, or obtain waivers or forbearance from our lenders, or if we were 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.

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

The energy produced and revenue and cash flows 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 or natural catastrophes, such as hailstorms, tornadoes, fires or earthquakes. 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 or environmental conditions also could unexpectedly delay the installation of our solar energy systems, leading to increased expenses and decreased revenue and cash flows in the relevant periods. Extreme weather conditions, as well as the natural catastrophes that could result from such conditions, can severely impact our operations by delaying the installation of our systems, lowering sales, and causing a decrease in the output from our systems due to smoke or haze. Weather patterns could change, making it harder to predict the average annual amount of sunlight striking each location where our solar energy systems are installed. This could make our solar service offerings 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.

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

As of June 30, 2020, more than 40% of our customers were in California. Accordingly, our business and results of operations are particularly susceptible to adverse economic, regulatory, political, weather and other conditions in this market and in other markets that may become similarly concentrated, in particular the east coast, where we have seen significant growth recently. In addition, our corporate and sales headquarters are located in San Francisco, California, an area that has a heightened risk of earthquakes and nearby wildfires. We may not have adequate insurance, including business interruption insurance, to compensate us for losses that may occur from any such significant events, including damage to our solar energy systems. A significant natural disaster, such as an earthquake or wildfire, or a public health crisis, such as a pandemic, could have a material adverse impact on our business, results of operations and financial condition. In addition, acts of terrorism or malicious computer viruses could cause disruptions in our or our solar partners' businesses or the economy as a whole. To the extent that these disruptions result in delays or cancellations of installations or the deployment of our solar service offerings, our business, results of operations and financial condition would be adversely affected.

Loan financing developments could adversely impact our business.

The third-party ownership structure, which we bring to market through our solar service offerings, continues to be the predominant form of system ownership in the residential solar market in many states. However, with the development of new loan financing products, we have seen a modest shift from leasing to outright purchases of the solar energy system by the customer (i.e., a customer purchases the solar energy system outright instead of leasing the system from us). Continued increases in third-party loan financing products and outright purchases could result in the demand for long-term Customer Agreements to decline, which would require us to shift our product focus to respond to the market trend and could have an adverse effect on our business. In 2019, 2018 and 2017, the majority of our customers chose our solar service offerings as opposed to buying a solar energy system outright. Our financial model is impacted by the volume of customers who choose our solar service offerings, and an increase in the number of customers who choose to purchase solar energy systems (whether for cash or through third-party financing) may harm our business and financial results.

Additionally, as discussed above, further reductions in the Commercial ITC as scheduled may impact the attractiveness of solar energy to certain customers and could potentially harm our business. Further reductions in, eliminations of, or expirations of, governmental incentives such as the Residential Energy Efficiency Tax Credit could reduce the number of customers who choose to purchase our solar energy systems.

Our growth depends in part on the success of our relationships with third parties, including our solar partners.

A key component of our growth strategy is to develop or expand our relationships with third parties. For example, we are investing resources in establishing strategic relationships with market players across a variety of industries, including large retailers, to generate new customers. These programs may not roll out as quickly as planned or produce the results we anticipated. A significant portion of our business depends on attracting and retaining new and existing solar partners. Negotiating relationships with our solar partners, investing in due diligence efforts with potential solar partners, training such third parties and contractors, and monitoring them for compliance with our standards require significant time and resources and may present greater risks and challenges than expanding a direct sales or installation team. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to grow our business and address our market opportunity could be impaired. Even if we are able to establish and maintain these relationships, we may not be able to execute on our goal of leveraging these relationships to meaningfully expand our business, brand recognition and customer base. This would limit our growth potential and our opportunities to generate significant additional revenue or cash flows.

We and our solar partners depend on a limited number of suppliers of solar panels and other system components to adequately meet anticipated demand for our solar service offerings. Any shortage, delay or component price change from these suppliers, or the acquisition of any of these suppliers by a competitor, could result in sales and installation delays, cancellations and loss of market share.

We and our solar partners purchase solar panels, inverters and other system components and batteries from a limited number of suppliers, making us susceptible to quality issues, shortages and price changes. If we or our solar partners 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 service offerings, 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 or our solar partners 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.

The acquisition of a supplier by one of our competitors could also limit our access to such components and require significant redesigns of our solar energy systems or installation procedures and have a material adverse effect on our business.

In particular, there is a limited number of suppliers of inverters, which are components that convert electricity generated by solar panels into electricity that can be used to power the home. For example, 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 delays and additional expenses to redesign the system. Further, the inverters on our solar energy systems generally carry only ten year warranties. If there is an inverter equipment shortage in a year when a substantial number of inverters on our systems need to be replaced, we may not be able to replace the inverters to maintain proper system functioning or may be forced to do so at higher than anticipated prices, either of which would adversely impact our business.

There have also been periods of industry-wide shortage of key components, including solar panels, in times of rapid industry growth or regulatory change. For example, guidance from the IRS on the steps required for construction to be deemed to have commenced in time to qualify for federal investment tax credits has recently resulted in significant module shortages in the market as utilities and large commercial customers started purchasing supplies in advance of the December 2019 deadline to qualify for a 30% Commercial ITC. Further, new or unexpected changes in rooftop fire codes or building codes may require new or different system components to satisfy compliance with such newly effective codes or regulations, which may not be readily available for distribution to us or our suppliers. 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 and, as a result, could negatively impact our ability to install systems in a timely manner. Additionally, 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. Any of these shortages, delays or price changes could limit our growth, cause cancellations or adversely affect our operating margins, and result in loss of market share and damage to our brand.

In addition, our supply chain and operations (or those of our partners) could be subject to natural disasters and other events beyond our control, such as earthquakes, wildfires, flooding, hurricanes, tsunamis, typhoons, volcanic eruptions, droughts, tornadoes, the effects of climate change and related extreme weather, public health issues and pandemics, war, terrorism, and geo-political unrest and uncertainties. For example, the COVID-19 pandemic is having an unprecedented impact on the U.S. economy and on our business, and the extent to which the COVID-19 pandemic may impact our supply chain and operations is uncertain. The extent of the impact of the COVID-19 pandemic on our business and operations will depend on several factors, such as the duration, severity, and geographic spread of the outbreak and the extent of travel restrictions and business closures imposed in China, the United States, and other countries.

As the primary entity that contracts with customers, we are subject to risks associated with construction, cost overruns, delays, customer cancellations, 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 certain communities that we service, and we are ultimately responsible as the contracting party for every solar energy system installation. We may be liable, either directly or through our solar partners, to customers for any damage we cause to them, their home, belongings or property during the installation of our systems. For example, we, either directly or through our solar partners, frequently penetrate 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, because the solar energy systems we or our solar partners deploy are high voltage energy systems, we may incur liability for any failure to comply with electrical standards and manufacturer recommendations.

Completing the sale and installation of a solar energy system requires many different steps including a site audit, completion of designs, permitting, installation, electrical sign-off and interconnection. Customers may cancel their Customer Agreement, subject to certain conditions, during this process until commencement of installation, and we have experienced increased customer cancellations in certain geographic markets during certain periods in our operating history. We or our solar partners may face customer cancellations, delays or cost overruns which may adversely affect our or our solar partners' ability to ramp up the volume of sales or installations in accordance with our plans. These cancellations, delays or overruns may be the result of a variety of factors, such as labor shortages or other labor issues, defects in materials and workmanship, adverse weather conditions, transportation constraints, construction change orders, site changes or roof conditions, geographic factors and other unforeseen difficulties, any of which could lead to increased cancellation rates, reputational harm and other adverse effects. For example, some customer orders are cancelled after a site visit if we determine that a customer needs to make repairs to or install a new roof, or that there is excessive shading on their property. If we continue to experience increased customer cancellations, our financial results may be materially and adversely affected.

In addition, the installation of solar energy systems and other energy-related products requiring building modifications are subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building, fire and electrical codes, safety, environmental protection, utility interconnection and metering, and related matters. We also rely on certain of our and our partners' employees to maintain professional licenses in many of the jurisdictions in which we operate, and our failure to employ properly licensed personnel could adversely affect our licensing status in those jurisdictions. It is difficult and costly to track the requirements of every 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 solar service offerings.

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

We typically bear the risk of loss and the cost of maintenance, repair and removal on solar energy systems that are owned or leased by our investment funds.

We typically bear the risk of loss and are generally obligated to cover the cost of maintenance, repair and removal for any solar energy system that we sell or lease to our investment funds. At the time we sell or lease a solar energy system to an investment fund, 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 energy systems require an above-average amount of repairs or if the cost of repairing systems were higher than our estimate, we would need to perform such repairs without additional compensation. If our solar energy systems, of which more than 40% of which are located in California, are damaged as the result of a natural disaster beyond our control, losses could exceed or be excluded from, our 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 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.

Disruptions to our solar production metering solution could negatively impact our revenue and increase our expenses.

Our ability to monitor solar energy production for various purposes depends on the operation of our metering solution. We could incur significant expense and disruption to our operations in connection with failures of our metering solution, including meter hardware failures and failure or obsolescence of the cellular technology that we use to communicate with those meters. For example, many of our meters operate on either the 3G or 4G cellular data networks, which are expected to sunset before the term of our Customer Agreements, and newer technologies we use today may become obsolete before the end of the term of Customer Agreements entered into now. Upgrading our metering solution may cause us to incur significant expense. Additionally, our meters communicate data through proprietary software, which we license from our metering partners. Should we be unable to continue to license, on agreeable terms, the software necessary to communicate with our meters, it could cause a significant disruption in our business and operations.

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.

Customers who enter into Customer Agreements with us are covered by production guarantees and roof penetration warranties. As the owners of the solar energy systems, we or our investment funds receive a warranty from the inverter and solar panel manufacturers, and, for those solar energy systems that we do not install directly, we receive workmanship and material warranties as well as roof penetration warranties from our solar partners. For example, in 2014 and 2015, we had to replace a significant number of defective inverters, the cost of which was borne by the manufacturer. However, our customers were without solar service for a period of time while the work was done, which impacted customer satisfaction. Furthermore, one or more of our third-party manufacturers or solar partners could cease operations and no longer honor these warranties, leaving us to fulfill these potential obligations to customers, or such warranties may be limited in scope and amount, and may be inadequate to protect us. We also provide a performance guarantee with certain solar service offerings pursuant to which we compensate customers on an annual basis if their system does not meet the electricity production guarantees set forth in their agreement with us. Customers who enter into Customer Agreements with us are covered by production guarantees equal to the length of the term of these agreements, typically 20 or 25 years. We may suffer financial losses associated if significant performance guarantee payments are triggered.

Because of our limited operating history and the length of the term of our Customer Agreements, 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. 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 or lease 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.

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

If our solar service offerings, including our racking 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 customers or their property could be injured or damaged by our products, whether by product malfunctions, defects, improper installation or other causes. We rely on third-party manufacturing warranties, warranties provided by our solar partners and 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 and adversely affect sales of our systems and other products. In addition, product liability claims, injuries, defects or other problems experienced by other companies in the residential solar industry could lead to unfavorable market conditions to the industry as a whole, and may have an adverse effect on our ability to attract customers, thus affecting our growth and financial performance.

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

We depreciate the costs of our solar energy systems over their estimated useful life of 35 years. At the end of the initial typically 20- or 25-year term of the Customer Agreement, customers may choose to purchase their solar energy systems, ask to remove the system at our cost or renew their Customer Agreements. Customers may choose to not renew or purchase for any reason, including pricing, decreased energy consumption, relocation of residence or switching to a competitor product.

Furthermore, it is difficult to predict how future environmental regulations may affect the costs associated with the removal, disposal or recycling of our solar energy systems. If the value in trade or renewal revenue is less than we expect, we may be required to recognize all or some of the remaining unamortized costs. This could materially impair our future results of operations.

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

We depend significantly on our brand and reputation for high-quality solar service offerings, engineering and customer service to attract customers and grow our business. If we fail to continue to deliver our solar service offerings within the planned timelines, if our solar service offerings do not perform as anticipated or if we damage any customers' properties or cancel projects, our brand and reputation could be significantly impaired. We also depend greatly on referrals from customers for our growth. Therefore, our inability to meet or exceed customers' expectations would harm our reputation and growth through referrals. We have at times focused particular attention on expeditiously growing our direct sales force and our solar partners, leading us in some instances to hire personnel or partner with third parties who we may later determine do not fit our company culture and standards. Given the sheer volume of interactions our direct sales force and our solar partners have with customers and potential customers, it is also unavoidable that some interactions will be perceived by customers and potential customers as less than satisfactory and result in complaints. If we cannot manage our hiring and training processes to limit potential issues and maintain appropriate customer service levels, our brand and reputation may be harmed and our ability to grow our business would suffer. In addition, if we were unable to achieve a similar level of brand recognition as our competitors, some of which may have a broader brand footprint as a result of a larger direct sales force, more resources and longer operational history, we could lose recognition in the marketplace among prospective customers, suppliers and partners, which could affect our growth and financial performance. Our growth strategy involves marketing and branding initiatives that will involve incurring significant expenses in advance of corresponding revenue. We cannot assure you that such marketing and branding expenses will result in the successful expansion of our brand recognition or increase our revenue. We are also subject to marketing and advertising regulations in various jurisdictions, and overly restrictive conditions on our marketing and advertising activities may inhibit the sales of the affected products.

A failure to hire and retain a sufficient number of employees and service providers in key functions would constrain our growth and our ability to timely complete customers' projects and successfully manage customer accounts.

To support our growth, we need to hire, train, deploy, manage and retain a substantial number of skilled employees, engineers, installers, electricians, sales and project finance specialists. Competition for qualified personnel in our industry is increasing, particularly for skilled personnel involved in the installation of solar energy systems. We have in the past been, and may in the future be, unable to attract or retain qualified and skilled installation personnel or installation companies to be our solar partners, which would have an adverse effect on our business. We and our solar partners also compete with the homebuilding and construction industries for skilled labor. As these industries grow and seek to hire additional workers, our cost of labor may increase. The unionization of the industry's 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. Further, we need to continue to expand upon the training of our customer service team to provide high-end account management and service to customers before, during and following the point of installation of our solar energy systems. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take several months before a new customer service team member is fully trained and productive at the standards that we have established. If we are unable to hire, develop and retain talented technical and customer service personnel, we may not be able to realize the expected benefits of this investment or grow our business.

In addition, to support the growth and success of our direct-to-consumer channel, we need to recruit, retain and motivate a large number of sales personnel on a continuing basis. We compete with many other companies for qualified sales personnel, and it could take many months before a new salesperson is fully trained on our solar service offerings. If we are unable to hire, develop and retain qualified sales personnel or if they are unable to achieve desired productivity levels, we may not be able to compete effectively.

If we or our solar partners cannot meet our hiring, retention and efficiency goals, we may be unable to complete customers' projects on time or manage customer accounts 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.

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, Lynn Jurich, and our Chairman and co-founder, Edward Fenster. 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.

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

We have in the past and may in the future, acquire companies, Project pipelines, Projects, SRECs, products, or technologies or enter into joint ventures or other strategic transactions. We may not realize the anticipated benefits of past or future investments, strategic transactions, or acquisitions, and these transactions involve numerous risks that are not within our control. These risks include the following, among others:

- failure to satisfy the required conditions and otherwise complete a planned acquisition, joint venture or other strategic transaction on a timely basis or at all;
- legal or regulatory proceedings, if any, relating to a planned acquisition, joint venture or other strategic transaction and the outcome of such legal proceedings;
- difficulty in assimilating the operations and personnel of the acquired company, especially given our unique culture;
- difficulty in effectively integrating the acquired technologies or products with our current products and technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our results of operations;

- significant post-acquisition investments which may lower the actual benefits realized through the acquisition;
- potential failure of the due diligence processes to identify significant issues with product quality, legal and financial liabilities, among other things;
- potential inability to assert that internal controls over financial reporting are effective; and
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

Our failure to address these risks, or other problems encountered in connection with our past or future investments, strategic transactions, or acquisitions, could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental expenses or the write-off of goodwill, any of which could harm our financial condition or results of operations.

Mergers and acquisitions are inherently risky, may not produce the anticipated benefits and could adversely affect our business, financial condition or results of operations.

If we are unsuccessful in developing and maintaining our proprietary technology, including our BrightPath software, our ability to attract and retain solar partners could be impaired, our competitive position could be harmed and our revenue could be reduced.

Our future growth depends on our ability to continue to develop and maintain our proprietary technology that supports our solar service offerings, including our design and proposal software, BrightPath. In addition, we rely, and expect to continue to rely, on licensing agreements with certain third parties for aerial images that allow us to efficiently and effectively analyze a customer's rooftop for solar energy system specifications. In the event that our current or future products require features that we have not developed or licensed, or we lose the benefit of an existing license, we will be required to develop or obtain such technology through purchase, license or other arrangements. If the required technology is not available on commercially reasonable terms, or at all, we may incur additional expenses in an effort to internally develop the required technology. In addition, our BrightPath software was developed, in part, with U.S. federal government funding. When new technologies are developed with U.S. government funding, the government obtains certain rights in any resulting patents, including a nonexclusive license authorizing the government to use the invention for non-commercial purposes. These rights may permit the government to disclose certain confidential information related to BrightPath to third parties and to exercise "march-in" rights to use or allow third parties to use our patented technology. We are also subject to certain reporting and other obligations to the U.S. government in connection with funding for BrightPath. If we were unable to maintain our existing proprietary technology, our ability to attract and retain solar partners could be impaired, our competitive position could be harmed and our revenue could be reduced.

Our business may be harmed if we fail to properly protect our intellectual property, and we may also be required to defend against claims or indemnify others against claims that our intellectual property infringes on the intellectual property rights of third parties.

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 copyright, trade secret and patent protections to secure our intellectual property rights. Although we may incur substantial costs in protecting our technology, we cannot be certain that we have adequately protected or will be able to adequately protect it, 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 third parties could harm our business, financial condition and results of operations.

We are subject to legal proceedings, regulatory inquiries and litigation, and we have previously been, and may in the future be, named in additional legal proceedings, become involved in regulatory inquiries or be subject to litigation in the future, all of which are costly, distracting to our core business and could result in an unfavorable outcome, or a material adverse effect on our business, financial condition, results of operations, or the trading price for our securities.

We are involved in legal proceedings and receive inquiries from government and regulatory agencies from time to time. In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, we could be exposed to costly and time-consuming legal proceedings that could result in any number of outcomes. Although outcomes of such actions vary, any current or future claims or regulatory actions initiated by or against us, whether successful or not, could result in significant costs, costly damage awards or settlement amounts, injunctive relief, increased costs of business, fines or orders to change certain business practices, significant dedication of management time, diversion of significant operational resources, or otherwise harm our business.

If we are not successful in our legal proceedings and litigation, we may be required to pay significant monetary damages, which could hurt our results of operations. Lawsuits are time-consuming and expensive to resolve and divert management's time and attention. Although we carry general liability insurance, our insurance may not cover potential claims or may not be adequate to indemnify us for all liability that may be imposed. We cannot predict how the courts will rule in any potential lawsuit against us. Decisions in favor of parties that bring lawsuits against us could subject us to significant liability for damages, adversely affect our results of operations and harm our reputation.

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

Our business involves transactions with customers. We and our solar partners must comply with numerous federal, state and local laws and regulations that govern matters relating to our interactions with customers, including those pertaining to privacy and data security, consumer financial and credit transactions, home improvement contracts, warranties and direct-to-home solicitation. These laws and regulations are dynamic and subject to potentially differing interpretations, and various federal, state and local legislative and regulatory bodies may expand current laws or regulations, or enact new laws and regulations, regarding these matters. Changes in these laws or regulations or their interpretation could dramatically affect how we do business, acquire customers, and manage and use information we collect from and about current and prospective customers and the costs associated therewith. We strive to comply with all applicable laws and regulations relating to our interactions with residential customers. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Noncompliance with any such laws or regulations, or the perception that we or our solar partners have violated such laws or regulations or engaged in deceptive practices that could result in a violation, could also expose us to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business. We have incurred, and will continue to incur, significant expenses to comply with such laws and regulations, and increased regulation of matters relating to our interactions with residential customers could require us to modify our operations and incur significant additional expenses, which could have an adverse effect on our business, financial condition and results of operations.

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

The installation of solar energy systems requires our employees and employees of our solar partners to work with complicated and potentially dangerous electrical and utility systems. The evaluation and installation of our energy-related products also require these employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold or other substances. We also maintain large fleets of vehicles that these employees use in the course of their work. There is substantial risk of serious illness, 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 ("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 illness, 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. Any accidents, citations, violations, illnesses, 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.

We are exposed to the credit risk of customers and payment delinquencies on our accounts receivables.

Our Customer Agreements are typically for 20 or 25 years and require the customer to make monthly payments to us. Accordingly, we are subject to the credit risk of customers. As of June 30, 2020, the average FICO score of our customers under Customer Agreement with a monthly payment schedule remained at or above 740, which is generally categorized as a "Very Good" credit profile by the Fair Isaac Corporation. However, this may decline to the extent FICO score requirements under future investment funds are relaxed. While customer defaults have been immaterial to date, we expect that the risk of customer defaults may increase as we grow our business. Due to the immaterial amount of customer defaults to date, our reserve for this exposure is minimal, and our future exposure may exceed the amount of such reserves. If we experience increased customer credit defaults, our revenue and our ability to raise new investment funds could be adversely affected. If economic conditions worsen, certain of our customers may face liquidity concerns and may be unable to satisfy their payment obligations to us on a timely basis or at all, which could have a material adverse effect on our financial condition and results of operations.

Obtaining a sales contract with a potential customer does not guarantee that a potential customer will not decide to cancel or that we will need to cancel due to a failed inspection, which could cause us to generate no revenue from a product and adversely affect our results of operations.

Even after we secure a sales contract with a potential customer, we (either directly or through our solar partners) must perform an inspection to ensure the home, including the rooftop, meets our standards and specifications. If the inspection finds repairs to the rooftop are required in order to satisfy our standards and specifications to install the solar energy system, and a potential customer does not want to make such required repairs, we would lose that anticipated sale. In addition, per the terms of our Customer Agreements, a customer maintains the ability to cancel before commencement of installation, subject to certain conditions. Any delay or cancellation of an anticipated sale could materially and adversely affect our financial results, as we may have incurred sales-related, design-related and other expenses and generated no revenue.

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

We utilize software that is licensed under so-called “open source,” “free” or other similar licenses. Open source software is made available to the general public on an “as-is” basis under the terms of a non-negotiable license. We currently combine our proprietary software with open source software but not in a manner that we believe requires the release of the source code of our proprietary software to the public. However, our use of open source software may entail greater risks than use of third-party commercial software. Open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, if we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar offerings with lower development effort and time.

We may also face claims alleging noncompliance with open source license terms or infringement or misappropriation of proprietary software. These claims could result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have a negative effect on our business and results of operations. In addition, if the license terms for open source software that we use change, we may be forced to re-engineer our solutions, incur additional costs or discontinue the use of these solutions if re-engineering cannot be accomplished on a timely basis. Although we monitor our use of open source software to avoid subjecting our offerings to unintended conditions, few courts have interpreted open source licenses, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to use our proprietary software. We cannot guarantee that we have incorporated or will incorporate open source software in our software in a manner that will not subject us to liability or in a manner that is consistent with our current policies and procedures.

Any security breach or unauthorized disclosure or theft of personal information we gather, store and use, or other hacking and phishing attacks on our systems, could harm our reputation, subject us to claims or litigation, and have an adverse impact on our business.

We receive, store and use personal information of customers, including names, addresses, e-mail addresses, credit information and other housing and energy use information, as well as the personal information of our employees. 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. In addition, computer malware, viruses, social engineering (predominantly spear phishing attacks), and general hacking have become more prevalent, have occurred on our systems in the past, and could occur on our systems in the future. Inadvertent disclosure of such personal information, or if a third party were to gain unauthorized access to the personal information in our possession, has resulted in, and could result in future claims or litigation arising from damages suffered by such individuals. 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. Our efforts to protect such personal information may be unsuccessful due to software bugs or other technical malfunctions; employees, contractor, or vendor error or malfeasance; or other threats that evolve. In addition, third parties may attempt to fraudulently induce employees or users to disclose sensitive information. Although we have developed systems and processes that are designed to protect the personal information we receive, store and use and to prevent or detect security breaches, we cannot assure you that such measures will provide absolute security. 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.

While we currently maintain cybersecurity insurance, such insurance may not be sufficient to cover us against claims, and we cannot be certain that cyber insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim.

Our business is subject to complex and evolving laws and regulations regarding privacy and data protection (“data protection laws”). Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, increased cost of operations or otherwise harm our business.

The regulatory environment surrounding data privacy and protection is constantly evolving and can be subject to significant change. New data protection laws, including recent California legislation and regulation which affords California consumers an array of new rights, including the right to be informed about what kinds of personal data companies have collected and why it was collected, pose increasingly complex compliance challenges and potentially elevate our costs. Complying with varying jurisdictional requirements could increase the costs and complexity of compliance, and violations of applicable data protection laws could result in significant penalties. Any failure, or perceived failure, by us to comply with applicable data protection laws could result in proceedings or actions brought against us by governmental entities or others, subject us to significant fines, penalties, judgments and negative publicity, require us to change our business practices, increase the costs and complexity of compliance, and adversely affect our business.

If our products do not work as well as planned or if we are unsuccessful in developing and selling new products or in penetrating new markets, our business, financial condition and results of operations could be adversely affected.

Our success and ability to compete are dependent on the products that we have developed or may develop in the future. There is a risk that the products that we have developed or may develop may not work as intended, or that the marketing of the products may not be as successful as anticipated. The development of new products generally requires substantial investment and can require long development and testing periods before they are commercially viable. We intend to continue to make substantial investments in developing new products and it is possible that that we may not develop or acquire new products or product enhancements that compete effectively within our target markets or differentiate our products based on functionality, performance or cost and thus our new technologies and products may not result in meaningful revenue. In addition, any delays in developing and releasing new or enhanced products could cause us to lose revenue opportunities and potential customers. Any technical flaws in product releases could diminish the innovative impact of our products and have a negative effect on customer adoption and our reputation. If we fail to introduce new products that meet the demands of our customers or target markets or do not achieve market acceptance, or if we fail to penetrate new markets, our business, financial conditions and results of operations could be adversely affected.

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.

We are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. Maintaining our disclosure controls and procedures and internal controls over financial reporting in accordance with this standard requires significant resources and management oversight. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. 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.

If we are unable to maintain effective disclosure controls and internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and, as a result, the value of our common stock may be materially and adversely affected.

We are required, pursuant to the Exchange Act, to furnish a report by management on, among other things, the effectiveness of our internal controls over financial reporting. This assessment includes disclosure of any material weaknesses, if any, identified by our management in our internal controls over financial reporting. We are continuing to develop and refine our disclosure controls and improve our internal controls over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and continuously look for ways to enhance existing effective disclosure controls and procedures and internal controls over financial reporting. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. In addition, we or our independent accounting firm may identify weaknesses and deficiencies that we may not otherwise identify in a timely manner in the future. If we are not able to complete the work required under Section 404 of the Sarbanes-Oxley Act on a timely basis for future fiscal years, our annual report on Form 10-K may be delayed or deficient. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

We cannot guarantee that our internal controls over financial reporting will prevent or detect all errors and fraud. The risk of errors is increased in light of the complexity of our business and investment funds. For example, we must deal with significant complexity in accounting for our fund structures and the resulting allocation of net income (loss) between our stockholders and noncontrolling interests under the HLBV method as well as the income tax consequences of these fund structures. As we enter into additional investment funds, which may have contractual provisions different from those of our existing funds, the analysis as to whether we consolidate these funds, the calculation under the HLBV method, and the analysis of the tax impact could become increasingly complicated. This additional complexity could require us to hire additional resources and increase the chance that we experience errors in the future.

If we are unable to assert that our internal controls over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline. In addition, we could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional management attention and which could adversely affect our business.

Our reported financial results may be affected, and comparability of our financial results with other companies in our industry may be impacted, by changes in the accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to change and interpretation by the Financial Accounting Standards Board ("FASB"), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and on the financial results of other companies in our industry, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. For example, in June 2016 the FASB issued Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU No. 2016-13"), which replaces the current incurred loss impairment methodology with a current expected credit losses model. Other companies in our industry may be affected differently by the adoption of ASU No. 2016-13 or other new accounting standards, including timing of the adoption of new accounting standards, adversely affecting the comparability of financial statements.

We may be adversely affected by changes in U.S. tax laws.

On December 22, 2017, Congress and the current administration passed significant tax legislation including a change to the corporate tax rate (the "Tax Act"). As part of the Tax Act, the current corporate income tax rate was reduced, and there were other changes including limiting or eliminating various other deductions, credits and tax preferences. This reduction in the corporate income tax rate reduced the value of certain benefits, such as depreciation, and reduced capacity for other benefits, such as tax credits. Limitations on, or elimination of, such tax benefits could significantly impact our ability to raise tax equity investment funds or impact the terms thereof, including the amount of cash distributable to third parties. At this time, we are evaluating the potential impact on our tax equity investment funds, business, prospects and results of operations as a result of enactment, since the impact is dependent upon certain tax treatment elections and the specific timing of taxable income/losses in future years. Based on the proposed regulations issued to date by the IRS, we have determined the changes under the Tax Act will not have a significant impact on our Consolidated Statement of Operations. We will continue to monitor and review proposed and final regulations and the impact to our business.

Indebtedness under our Bank Line of Credit and certain of our Senior and Subordinated Debt Facilities bear interest at variable interest rates based on LIBOR. Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates on our current or future indebtedness and may otherwise adversely affect our financial condition and results of operations.

In July 2017, the Financial Conduct Authority, the authority that regulates LIBOR, announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) in the U.S. has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to the U.S. dollar LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. ARRC has proposed a paced market transition plan to SOFR from U.S. dollar LIBOR and organizations are currently working on industry-wide and company-specific transition plans as relating to derivatives and cash markets exposed to U.S. dollar LIBOR. We have certain financial contracts, including our Bank Line of Credit and many of our Senior and Subordinated Debt Facilities, that are indexed to U.S. dollar LIBOR. Furthermore, changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates on our current or future indebtedness. Any transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that rely on LIBOR, reductions in the value of certain instruments or the effectiveness of related transactions such as hedges, increased borrowing costs, uncertainty under applicable documentation, or difficult and costly consent or amendment processes. We are monitoring this activity and evaluating the related risks, and any such effects of the transition away from LIBOR may result in increased expenses, may impair our ability to refinance our indebtedness or hedge our exposure to floating rate instruments, or may result in difficulties, complications or delays in connection with future financing efforts, any of which could adversely affect our financial condition and results of operations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2019, we had U.S. federal and state net operating loss carryforwards (“NOLs”) of approximately \$0.7 billion and \$1.3 billion, respectively, and investment tax credits of approximately \$18.9 million, which begin expiring in varying amounts in 2028, 2024 and 2028, respectively, if unused. Our U.S. federal and certain state NOLs generated in tax years beginning after December 31, 2017 total approximately \$0.5 billion and \$0.1 billion, respectively, have indefinite carryover periods, and do not expire. Under Sections 382 and 383 of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs and other pre-change tax assets, such as tax credits, to offset its post- change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. Additionally, states may impose other limitations on the use of NOLs and tax credit carryforwards. For example, California has recently imposed other limitations on the use of NOLs and limited the use of certain tax credits for taxable years beginning in 2020 through 2022. Any such limitations on our ability to use our NOLs and other tax assets could adversely impact our business, financial condition and results of operations. We have performed an analysis to determine whether an ownership change under Section 382 of the Code had occurred and determined that no ownership changes were identified as of December 31, 2019.

We may be required to record an impairment expense on our goodwill or intangible assets.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually or when events or changes in circumstances indicate that the carrying amount may be impaired, and to review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that can lead to impairment of goodwill and intangible assets include significant adverse changes in the business climate and actual or projected operating results, declines in the financial condition of our business and sustained decrease in our stock price. Since our annual impairment test of goodwill for the fiscal year ended December 31, 2019, we have not identified any qualitative factors that would require a quantitative goodwill impairment analysis. However, if we identify any factors that could indicate an impairment, including a sustained decrease in our stock price, we may be required to record charges to earnings if our goodwill becomes impaired.

Risks Related to Ownership of Our Common Stock

Our executive officers, directors and principal stockholders continue to have substantial control over us, which will limit your ability to influence the outcome of important matters, including a change in control.

Each of our executive officers, directors and each of our stockholders who beneficially own 5% or more of our outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 56.8% of the outstanding shares of our common stock, based on the number of shares outstanding as of June 30, 2020. As a result, these stockholders, if acting together, will 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 also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying or preventing a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock and might ultimately affect the market price of our common stock.

The market price of our common stock has been and may continue to be volatile, and you could lose all or part of your investment.

The trading price of our common stock has been volatile since our initial public offering, and is likely to continue to be volatile. Factors that could cause fluctuations in the market price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of companies in our industry or companies that investors consider comparable;
- changes in operating performance and stock market valuations of other companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations;
- changes in tax and other incentives that we rely upon in order to raise tax equity investment funds;
- changes in the regulatory environment and utility policies and pricing, including those that could reduce any savings we are able to offer to customers;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;

- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors, including the failure to complete the Vivint Solar acquisition;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

Further, the stock markets have experienced 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 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, government shutdowns, interest rate changes, or international currency fluctuations, may cause the market price of our common stock to decline. In the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. We are party to litigation that could result in substantial costs and a diversion of our management's attention and resources.

Sales of a substantial number of shares of our common stock in the public market, including by our existing stockholders, could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that these sales and others may have on the prevailing market price of our common stock.

In addition, certain of our stockholders have registration rights that would require us to register shares of our capital stock owned by them for public sale in the United States. We have also filed a registration statement to register shares of our common stock reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable exercise periods and applicable volume and restrictions that apply to affiliates, the shares of our common stock issued upon exercise of outstanding options will become available for immediate resale in the public market upon issuance.

Future sales of our common stock may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our common stock to decline and make it more difficult for you to sell shares of our common stock.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors and therefore depress the trading price of our common stock. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;

- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; and
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding capital stock not held by such stockholder. Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our common stock.

Provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws limit the ability of our stockholders to call special meetings and prohibit stockholder action by written consent.

Our amended and restated certificate of incorporation provides that our stockholders may not take action by written consent. Instead, any such actions must be taken at an annual or special meeting of our stockholders. As a result, our stockholders are not able to take any action without first holding a meeting of our stockholders called in accordance with the provisions of our amended and restated bylaws, including advance notice procedures set forth in our amended and restated bylaws. Our amended and restated bylaws further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our Chief Executive Officer or our President. As a result, our stockholders are not allowed to call a special meeting. These provisions may delay the ability of our stockholders to force consideration of a stockholder proposal, including a proposal to remove directors.

Provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws could preclude our stockholders from bringing matters before meetings of stockholders and delay changes in our board of directors.

Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before, or nominate candidates for election as directors at, our annual or special meetings of stockholders. In addition, our amended and restated certificate of incorporation provides that stockholders may remove directors only for cause. Any amendment of these provisions in our amended and restated bylaws or amended and restated certificate of incorporation would require approval by holders of at least 66 2/3% of our then outstanding capital stock. These provisions could preclude our stockholders from bringing matters before annual or special meetings of stockholders and delay changes in our board of directors.

Our amended and restated bylaws provide that a state or federal court located within the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or to our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state or federal court located within the state of Delaware, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. In addition, our amended and restated bylaws also provide that, unless we consent to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America shall be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. If a court were to find the choice of forum provisions contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations and financial condition.

If securities or industry analysts cease publishing research or reports about us, our business, our market or our competitors, or if they adversely change their recommendations regarding our common stock, the market price of our common stock and trading volume could decline.

The market for our common stock is influenced by the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us adversely change their recommendations regarding our common stock, or provide more favorable recommendations about our competitors, the market price of our common stock would likely decline. If any of the analysts who cover us 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 the market price of our common stock and trading volume to decline.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors may need to rely on sales of our common stock after price appreciation, which may never occur or only occur at certain times, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of our common stock.

Additional stock issuances could result in dilution to our stockholders.

We may issue additional equity securities to raise capital, make acquisitions or for a variety of other purposes. Additional issuances of our stock may be made pursuant to the exercise or conversion of new or existing convertible debt securities, warrants, stock options or other equity incentive awards to new and existing service providers. Any such issuances will result in dilution to existing holders of our stock. We rely on equity-based compensation as an important tool in recruiting and retaining employees. The amount of dilution due to equity-based compensation of our employees and other additional issuances could be substantial.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

Item 5. OTHER INFORMATION

None.

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).

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1§	Agreement and Plan of Merger, dated as of July 6, 2020, by and among Sunrun Inc., Viking Merger Sub, Inc., and Vivint Solar, Inc.	8-K	001-37511	2.1	7/10/2020
3.1	Amendment to Amended and Restated Bylaws	8-K	001-37511	3.1	7/10/2020
10.1	Vivint Solar Support Agreement, dated as of July 6, 2020, by and among Sunrun Inc. and 313 Acquisition LLC	8-K	001-37511	10.1	7/10/2020
10.2	Sunrun Support Agreement dated as of July 6, 2020, by and between Sunrun Inc., Tiger Global Investments, L.P. and Tiger Global Long Opportunities Master Fund, L.P.	8-K	001-37511	10.2	7/10/2020
10.3	Registration Rights Agreement dated as of July 6, 2020, by and among Sunrun Inc., 313 Acquisition LLC, Blackstone VNT Co-Invest L.P., Blackstone Capital Partners VI L.P., Blackstone Family Investment Partnership VI-ESC L.P., Blackstone Family Investment Partnership VI L.P., Summit Partners Growth Equity Fund VIII-A, L.P., Summit Partners Growth Equity Fund VIII-B, L.P., Summit Investors I, LLC, Summit Investors I (UK), L.P. and Todd R. Pedersen	8-K	001-37511	10.3	7/10/2020
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.CAL	XBRL Taxonomy Definition Linkbase Document.				
101.DEF	XBRL Taxonomy Calculation Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				
101.PRE	XBRL Taxonomy Presentation Linkbase Document.				
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB, and 101.PRE)				

§ Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the SEC upon request.

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Sunrun Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

SUNRUN INC.

Date: August 10, 2020

By: _____ /s/ Lynn Jurich

Lynn Jurich
Chief Executive Officer
(Principal Executive Officer)

By: _____ /s/ Tom vonReichbauer

Tom vonReichbauer
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tom vonReichbauer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sunrun Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

By:

/s/ Tom vonReichbauer

Tom vonReichbauer
Chief Financial Officer
(Principal Financial Officer)

