8point3 Energy Partners LP
Form 10-Q
October 01, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-37447

8point3 Energy Partners LP

(Exact Name of Registrant as Specified in its Charter)

Delaware	47-3298142
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
77 Rio Robles San Jose, California	95134
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (408) 240-5500

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

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

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

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

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

As of September 25, 2015, the registrant had outstanding 20,002,679 Class A shares representing limited partner interests and 51,000,000 Class B shares representing limited partner interests.

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GLOSSARY

References in this Quarterly Report on Form 10-Q to:

“AMAs” refers to asset management agreements.

“AROs” refers to asset retirement obligations.

“Blackwell Project” refers to the solar energy project located in Kern County, California, that is held by the Blackwell Project Entity and has a nameplate capacity of 12 MW.

“Blackwell Project Entity” refers to Blackwell Solar, LLC.

“C&I Holdings” refers to SunPower Commercial Holding Company I, LLC, an indirect subsidiary of OpCo and the holder of the C&I Project Entities.

“C&I Project Entities” refers to the Macy’s Project Entities and the UC Davis Project Entity.

“COD” refers to the commercial operation date.

“EPC” refers to engineering, procurement and construction.

“FASB” refers to the Financial Accounting Standards Board.

“First Solar” refers to First Solar, Inc., a corporation formed under the laws of the State of Delaware, in its individual capacity or to First Solar, Inc. and its subsidiaries, as the context requires. Unless otherwise specifically noted, references to First Solar and its subsidiaries excludes us, the General Partner, Holdings and our subsidiaries, including OpCo.

“First Solar Project Entities” refers to the Lost Hills Project Entity, the Blackwell Project Entity, the Maryland Solar Project Entity, the North Star Project Entity and the Solar Gen 2 Project Entity and, with respect to certain of the foregoing, one or more of its direct or indirect holding companies.

“First Solar ROFO Projects” refers to, collectively, the projects set forth in the Prospectus in the chart under the heading “Business—Our Portfolio—ROFO Projects” with First Solar listed as the “Developing Sponsor” and as to which we have a right of first offer under the First Solar ROFO Agreement (as defined in the Prospectus under “Certain Relationships and Related Party Transactions—ROFO Agreements”) should First Solar decide to sell them.

“General Partner” refers to 8point3 General Partner, LLC, our general partner, a limited liability company formed under the laws of the State of Delaware by Holdings.

“GW” refers to a gigawatt, or 1,000,000,000 watts. As used in this Quarterly Report on Form 10-Q, all references to watts (e.g., MW or GW) refer to measurements of alternating current, except where otherwise noted.

“Holdings” refers to 8point3 Holding Company, LLC, a limited liability company formed under the laws of the State of Delaware by First Solar and SunPower and the parent of the General Partner.

“Initial Portfolio” refers to, collectively, our initial portfolio of solar energy projects, which consists of the Lost Hills Blackwell Project, the Macy’s Project, the Maryland Solar Project, the North Star Project, the Quinto Project, the Solar Gen 2 Project, the RPU Project, the UC Davis Project and the Residential Portfolio.

“IPO” refers to the Partnership’s initial public offering, which was completed on June 24, 2015.

“ITCs” refers to investment tax credits.

“Lost Hills Blackwell Holdings” refers to Lost Hills Blackwell Holdings, LLC.

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“Lost Hills Blackwell Project” refers to the solar energy project held collectively by the Lost Hills Project Entity and the Blackwell Project Entity that is comprised of the Lost Hills Project and the Blackwell Project and has a nameplate capacity of 32 MW.

“Lost Hills Project” refers to the solar energy project located in Kern County, California, that is held by the Lost Hills Project Entity and has a nameplate capacity of 20 MW.

“Lost Hills Project Entity” refers to Lost Hills Solar, LLC.

“Macy’s Project” refers to the solar energy project consisting of seven sites in Northern California that is held by the Macy’s Project Entities and has an aggregate nameplate capacity of 3 MW.

“Macy’s Project Entities” refers to, collectively, Solar Star California XXX, LLC and Solar Star California XXX (2), LLC.

“Maryland Solar Project” refers to the solar energy project located in Washington County, Maryland, that is held by the Maryland Solar Project Entity and has a nameplate capacity of 20 MW.

“Maryland Solar Project Entity” refers to Maryland Solar LLC.

“MSAs” refers, collectively, to the Management Services Agreement among OpCo, the Partnership, the General Partner, Holdings and an affiliate of First Solar, and the Management Services Agreement among OpCo, the Partnership, the General Partner, Holdings and a subsidiary of SunPower. Please read “Certain Relationships and Related Party Transactions—Management Services Agreements” in the Prospectus.

“MW” refers to a megawatt, or 1,000,000 watts. As used in this Quarterly Report on Form 10-Q, all references to watts (e.g., MW or GW) refer to measurements of alternating current, except where otherwise noted.

“North Star Holdings” refers to NS Solar Holdings, LLC.

“North Star Project” refers to the solar energy project located in Fresno County, California, that is held by the North Star Project Entity and has a nameplate capacity of 60 MW.

“North Star Project Entity” refers to North Star Solar, LLC.

“NPV” refers to net present value.

“O&M” refers to operations and maintenance services.

“OECD” refers to the Organization for Economic Co-operation and Development, the membership of which consists of: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

“offtake agreements” refers to PPAs, leases and other offtake agreements.

“offtake counterparties” refers to the customer under a PPA lease or other offtake agreement.

“OpCo” refers to 8point3 Operating Company, LLC and its subsidiaries.

“Partnership” refers to 8point3 Energy Partners LP and its subsidiaries.

“Partnership Agreement” refers to our partnership agreement.

“PBI Rebates” refers to performance based incentives.

“PPA” refers to a power purchase agreement.

“Predecessor” refers to the SunPower Project Entities.

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"Project Entities" refers to, collectively, the First Solar Project Entities and the SunPower Project Entities.

"Prospectus" refers to the Partnership's prospectus dated June 18, 2015 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on June 19, 2015.

"Quinto Holdings" refers to SSCA XIII Holding Company, LLC, an indirect subsidiary of OpCo and the holder of the Quinto Project Entity.

"Quinto Project" refers to the solar energy project located in Merced County, California, that is held by the Quinto Project Entity and has a nameplate capacity of 108 MW.

"Quinto Project Entity" refers to Solar Star California XIII, LLC.

"Residential Portfolio" refers to the approximately 5,900 solar installations located at homes in Arizona, California, Colorado, Hawaii, Massachusetts, New Jersey, New York, Pennsylvania and Vermont, that is held by the Residential Portfolio Project Entity and has an aggregate nameplate capacity of 39 MW.

"Residential Portfolio Project Entity" refers to SunPower Residential I, LLC.

"ROFO Agreements" refers, collectively, to the Right of First Offer Agreement between OpCo and SunPower and the Right of First Offer Agreement between OpCo and First Solar. Please read "Certain Relationships and Related Party Transactions—ROFO Agreements" in the Prospectus.

"ROFO Portfolio" refers to, collectively, our portfolio of ROFO Projects.

"ROFO Projects" refers to, collectively, the First Solar ROFO Projects and the SunPower ROFO Projects.

"RPS" refers to renewable portfolio standards mandated by state law that require a regulated retail electric utility to procure a specified percentage of its total electricity delivered to retail customers in the state from eligible renewable energy resources, such as solar energy projects, by a specified date.

"RPU Holdings" refers to SSCA XXXI Holding Company, LLC, an indirect subsidiary of OpCo and the holder of the RPU Project Entity.

"RPU Project" refers to the solar energy project located in Riverside, California, that is held by the RPU Project Entity and has a nameplate capacity of 7 MW.

"RPU Project Entity" refers to Solar Star California XXXI, LLC.

"SEC" refers to the U.S. Securities and Exchange Commission.

"SG&A" refers to selling, general and administrative services.

"SG2 Holdings" refers to SG2 Holdings, LLC.

"Solar Gen 2 Project" refers to the solar energy project located in Imperial County, California, that is held by the Solar Gen 2 Project Entity and has a nameplate capacity of 150 MW.

"Solar Gen 2 Project Entity" refers to SG2 Imperial Valley, LLC.

"SP Holding Companies" refers, collectively, to Quinto Holdings, RPU Holdings and C&I Holdings.

"Sponsors" refers, collectively, to First Solar and SunPower.

"SunPower" refers to SunPower Corporation, a corporation formed under the laws of the State of Delaware, in its individual capacity or to SunPower Corporation and its subsidiaries, as the context requires. Unless otherwise specifically noted, references to SunPower and its subsidiaries excludes us, the General Partner, Holdings and our subsidiaries, including OpCo.

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“SunPower Project Entities” refers to the Macy’s Project Entities, the Quinto Project Entity, the RPU Project Entity, the UC Davis Project Entity and the Residential Portfolio Project Entity and, with respect to certain of the foregoing, one or more of its direct or indirect holding companies.

“SunPower ROFO Projects” refers to, collectively, the projects set forth in the Prospectus in the chart under the heading “Business—Our Portfolio—ROFO Projects” with SunPower listed as the Developing Sponsor and as to which we have a right of first offer under the SunPower ROFO Agreement (as defined in the Prospectus under “Certain Relationships and Related Party Transactions—ROFO Agreements”) should SunPower decide to sell them.

“UC Davis Project” refers to the solar energy project located in Solano County, California, that is held by the UC Davis Project Entity and has a nameplate capacity of 13 MW.

“UC Davis Project Entity” refers to Solar Star California XXXII, LLC.

“Utility Project Entities” refers to the Lost Hills Project Entity, the Blackwell Project Entity, the Maryland Solar Project Entity, the North Star Project Entity, the Quinto Project Entity, the RPU Project Entity and the Solar Gen 2 Project Entity.

“U.S. GAAP” refers to U.S. generally accepted accounting principles.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition or forecasts of future events. Words such as “could,” “will,” “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “continue” and similar expressions are used to identify forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this report include our expectations of plans, strategies, objectives, growth and anticipated financial and operational performance. Forward-looking statements can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, when considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report and in our prospectus dated June 18, 2015 and filed with the Securities and Exchange Commission (the “SEC”) pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the “Securities Act”) on June 19, 2015 (the “Prospectus”). Those risk factors and other factors noted throughout this report and in the Prospectus could cause our actual results to differ materially from those disclosed in any forward-looking statement. You should also understand that it is not possible to predict or identify all such factors and should not consider the risk factors included in this report and the Prospectus to be a complete statement of all potential risks and uncertainties. Please read “Risk Factors” in Item 1A of this Quarterly Report on Form 10-Q.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to publicly update or revise any forward-looking statements except as required by law.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

8point3 Energy Partners LP

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	August 31, 2015	December 28, 2014
Assets		
Current assets:		
Cash and cash equivalents	$43,398	$—
Accounts receivable and short-term financing receivables, net	4,036	2,910
Cash grants and rebates receivable	—	1,216
Prepaid and other current assets	7,863	—
Total current assets	55,297	4,126
Property and equipment, net	476,063	158,208
Long-term financing receivables, net	84,097	85,635
Investment in unconsolidated affiliates	355,896	—
Other long-term assets	23,134	—
Total assets	$994,487	$247,969
Liabilities and Equity		
Current liabilities:		
Accounts payable and other current liabilities	$2,686	$12,214
Short-term debt and financing obligations	—	1,842
Deferred revenue, current portion	979	631
Total current liabilities	3,665	14,687
Long-term debt and financing obligations	297,052	91,183
Deferred revenue, net of current portion	800	10,615
Other long-term liabilities	9,145	3,974
Total liabilities	310,662	120,459
Redeemable noncontrolling interests	2,080	—
Equity:		
Class A shares, 20,002,679 issued and outstanding as of August 31, 2015 and no shares issued or outstanding as of December 28, 2014	392,691	—
Class B shares, 51,000,000 issued and outstanding as of August 31, 2015 and no	—	—

shares issued or outstanding as of December 28, 2014		
SunPower investment prior to IPO	—	140,189
Accumulated earnings (deficit)	1,033	(9,523)
Accumulated other comprehensive loss	—	(3,156)
Total shareholders' equity attributable to 8point3 Energy Partners LP	393,724	127,510
Noncontrolling interests	288,021	—
Total equity	681,745	127,510
Total liabilities and equity	$994,487	$247,969

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

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8point3 Energy Partners LP

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Eight Months Ended	Nine Months Ended
	August 31, 2015	September 28, 2014	August 31, 2015	September 28, 2014
Revenues:				
Operating revenues	$3,076	$ 2,331	$6,629	$ 6,903
Total revenues	3,076	2,331	6,629	6,903
Operating costs and expenses:				
Cost of operations	73	1,842	2,389	(3,411)
Cost of operations-SunPower, prior to IPO	59	234	468	703
Selling, general and administrative	2,483	1,001	9,055	2,896
Depreciation, amortization and accretion	1,172	733	2,374	1,638
Total operating costs and expenses	3,787	3,810	14,286	1,826
Operating (loss) income	(711)	(1,479)	(7,657)	5,077
Other expense (income):				
Interest expense	201	1,336	1,646	4,090
Interest income	(228)	—	(1,223)	—
Other expense	3,443	—	12,695	—
Total other expense, net	3,416	1,336	13,118	4,090
(Loss) income before income taxes	(4,127)	(2,815)	(20,775)	987
Income tax (provision) benefit	(701)	(27)	(707)	31
Equity in earnings of unconsolidated investees	6,115	—	6,115	—
Net income (loss)	1,287	$ (2,842)	(15,367)	$ 1,018
Less: Predecessor loss prior to IPO on June 24, 2015	(3,441)		(20,095)	
Net income subsequent to IPO	4,728		4,728	
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	3,695		3,695	
Net income attributable to 8point3 Energy Partners LP Class A shares	$1,033		$1,033	
Net income per Class A share:				
Basic	$0.05		$0.05	
Diluted	$0.05		$0.05	
Weighted average number of Class A shares:				

Basic	20,002	20,002
Diluted	34,415	34,415

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

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8point3 Energy Partners LP

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended		Eight Months Ended	Nine Months Ended
	August 31, 2015	September 28, 2014	August 31, 2015	September 28, 2014
Net income (loss)	$1,287	$ (2,842)	$(15,367)	$ 1,018
Other comprehensive income:				
Unrealized gain on cash flow hedges	—	—	3,156	—
Total comprehensive income (loss)	1,287	(2,842)	(12,211)	1,018
Less: Predecessor comprehensive loss prior to initial public offering on June 24, 2015	(3,441)	(2,842)	(16,939)	1,018
Comprehensive income subsequent to initial public offering	4,728	$ —	4,728	$ —
Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interests	3,695		3,695	
Comprehensive income attributable to 8point3 Energy Partners LP Class A shares	$1,033		$1,033	

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

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8point3 Energy Partners LP

Condensed Consolidated Statements of Shareholders’ Equity

(In thousands, except share data)

(Unaudited)

	Redeemable Noncontrolling Interests	SunPower Investment prior to IPO	Class A Shares		Class B Shares		Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
			Shares	Amount	Shares	Amount					
Balance as of December 29, 2013	$—	$139,933	—	$—	—	$—	$—	$—	$—	$—	$139,933
Predecessor loss prior to IPO	—	(1,216)	—	—	—	—	—	—	—	—	(1,216)
Unrealized loss on cash flow hedges	—	—	—	—	—	—	(3,156)	—	—	—	(3,156)
Contributions from SunPower	—	3,147	—	—	—	—	—	—	—	—	3,147
Distributions to SunPower	—	(11,198)	—	—	—	—	—	—	—	—	(11,198)
Balance as of December 28, 2014	—	130,666	—	—	—	—	(3,156)	—	—	—	127,510
Predecessor loss prior to IPO	—	(20,095)	—	—	—	—	—	—	—	—	(20,095)
Contributions from SunPower	—	337,794	—	—	—	—	—	—	—	—	337,794
Distributions to SunPower	—	(3,163)	—	—	—	—	—	—	—	—	(3,163)
Net change in unrealized loss on cash flow hedges	—	—	—	—	—	—	3,156	—	—	—	3,156
Balance as of June 24, 2015	—	445,202	—	—	—	—	—	—	—	—	445,202

ssuance by OpCo of OpCo common units, subordinated units and ncentive Distribution Rights ("IDRs") for contribution of SunPower Project Entities	—	(493,790)	—	—	—	—	—	—	—	493,790	—
Predecessor's iabilities ssumed by SunPower	—	48,588	—	—	—	—	—	—	—	—	48,588
ssuance by OpCo of OpCo common units, subordinated units and IDRs for acquisition of interests in First Solar Project Entities	—	—	—	—	—	—	—	—	—	408,820	408,820
Contributions rom noncontrolling nterests - tax quity investors	2,409	—	—	—	—	—	—	—	—	4,624	4,624
Distribution to Sponsors	—	—	—	—	—	—	—	—	—	(661,217)	(661,217)
ssuance of Class A shares t IPO, net of ssuance costs	—	—	20,000,000	392,635	—	—	—	—	392,635	—	392,635
ssuance of Class B shares o First Solar	—	—	—	—	22,116,925	—	—	—	—	—	—
ssuance of Class B shares o SunPower	—	—	—	—	28,883,075	—	—	—	—	—	—
Share-based compensation	—	—	2,679	56	—	—	—	—	56	—	56

Contributions from SunPower	—	—	—	—	—	—	—	—	—	37,981	37,981
Net income (loss) subsequent to IPO	(329)	—	—	—	—	—	—	1,033	1,033	4,023	5,056
Balance as of August 31, 2015	$2,080	$—	20,002,679	$392,691	51,000,000	$—	$—	$1,033	$393,724	$288,021	$681,745

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

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8point3 Energy Partners LP

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Eight Months Ended August 31, 2015	Nine Months Ended September 28, 2014
Cash flows from operating activities:		
Net (loss) income	$(15,367)	$ 1,018
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,374	1,638
Loss on cash flow hedges	3,242	—
Unrealized loss on interest rate swap	770	—
Interest expense on financing obligation	1,193	3,673
Loss on termination of financing obligation	6,478	—
Reserve for rebates receivable	1,338	584
Equity in earnings of unconsolidated investees	(6,115)	—
Deferred income taxes	695	—
Share-based compensation	56	—
Changes in operating assets and liabilities:		
Accounts receivable and financing receivable	99	(2,862)
Cash grants receivable	146	1,013
Rebates receivable	(121)	1,209
Solar power systems to be leased under sales type leases	160	439
Prepaid expense and other current assets	(4,232)	(348)
Deferred revenue	426	(619)
Accounts payable and other accrued liabilities	1,564	(4,060)
Net cash (used in) provided by operating activities	(7,294)	1,685
Cash flows from investing activities:		
Purchases of property and equipment	(225,225)	(33,696)
Receipts of cash grants related to solar energy systems under operating leases	—	3,228
Cash distributions from unconsolidated investees	4,672	—
Net cash used in investing activities	(220,553)	(30,468)
Cash flows from financing activities:		
Proceeds from issuance of Class A shares, net of issuance costs	393,750	—
Proceeds from issuance of bank loans, net of issuance costs	461,192	—
Cash distribution to SunPower at IPO	(371,527)	—
Cash distribution to SunPower for the remaining purchase price payments of initial projects	(5,993)	—

Cash distribution to First Solar at IPO	(283,697)	—
Repayment of bank loans	(264,143)	—
Capital contributions from SunPower	337,794	38,152
Capital distribution to SunPower	(3,162)	(9,369)
Cash contributions from noncontrolling interests and redeemable noncontrolling interests - tax equity investors	7,031	—
Net cash provided by financing activities	271,245	28,783
Net increase in cash and cash equivalents	43,398	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	$43,398	$—
Non-cash transactions:		
Assignment of financing receivables to a third party financial institution	$1,279	$6,238
Property and equipment acquisitions funded by liabilities	—	2,492
Additions of ARO assets and liabilities	6,304	—
Predecessor liabilities assumed by SunPower	48,588	—
Issuance by OpCo of OpCo common units, subordinated units and IDRs for acquisition of interests in First Solar Project Entities	408,820	—

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

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8point3 Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Description of Business and Basis of Presentation

The Partnership

8point3 Energy Partners LP (together with its subsidiaries, the "Partnership") is a limited partnership formed on March 10, 2015 under a master formation agreement by SunPower Corporation ("SunPower") and First Solar, Inc. ("First Solar" and, together with SunPower, the "Sponsors") to own, operate and acquire solar energy generation systems. The Partnership's initial public offering (the "IPO") was completed on June 24, 2015. 8point3 General Partner, LLC (the "General Partner"), the Partnership's general partner, is a wholly-owned subsidiary of 8point3 Holding Company, LLC, an entity owned by SunPower and First Solar ("Holdings"). As of August 31, 2015, 8point3 Energy Partners LP owned a controlling non-economic managing member interest in 8point3 Operating Company, LLC ("OpCo") and a 28.2% limited liability company interest in OpCo and the Sponsors collectively owned a noncontrolling 71.8% limited liability company interest in OpCo.

The following table provides an overview of the assets that comprise the Partnership's initial portfolio (the "Initial Portfolio"):

Project	Commercial Operation Date(1)	MW(ac)(2)	Counterparty	Remaining Term of Offtake Agreement (in years)(3)
Utility				
Maryland Solar	February 2014	20	First Energy Solutions	17.6
Solar Gen 2	November 2014	150	San Diego Gas & Electric	24.3
Lost Hills Blackwell	April 2015	32	City of Roseville/Pacific Gas and Electric	28.3(4)
North Star	June 2015	60	Pacific Gas and	19.8

RPU	October 2015	7	Electric City of Riverside	25.0
Quinto	October 2015	108	Southern California Edison	20.0
Commercial & Industrial				
UC Davis	September 2015	13	University of California	20.0
Macy's	October 2015	3	Macy's Corporate Services	20.0
Residential Portfolio	June 2014	39	Approx. 5,900 homeowners(5)	17.1(6)
Total		432		

(1) For each utility project that has yet to reach its commercial operation date ("COD") and for the UC Davis project, COD is the expected COD. For the Macy's Project, COD represents the expected first date on which all of the solar generation systems within the Macy's Project will achieve COD. For the Residential Portfolio, COD represents the first date on which all of the residential systems within the Residential Portfolio have achieved COD.

(2) The megawatts ("MW") for the projects in which the Partnership owns less than a 100% interest or in which the Partnership is the lessor under any sale-leaseback financing are shown on a gross basis. For a description of these ownership arrangements, please read the description under "Business—Tax Equity" in the Prospectus.

(3) Remaining term of offtake agreement is measured from the later of August 31, 2015 or the COD of the applicable project.

(4) Remaining term comprised of 3.3 years on a power purchase agreement ("PPA") with the City of Roseville, California, followed by a 25-year PPA with Pacific Gas and Electric starting in 2019.

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8point3 Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements — Continued

(5) Comprised of the approximately 5,900 solar installations located at homes in Arizona, California, Colorado, Hawaii, Massachusetts, New Jersey, New York, Pennsylvania and Vermont, that is held by SunPower Residential I, LLC and has an aggregate nameplate capacity of 39 MW.
(6) Remaining term is the weighted average duration of all of the residential leases.

Basis of Presentation and Preparation

The direct and indirect contributions of the Project Entities (as defined below) by the Sponsors to OpCo in connection with the IPO resulted in a business combination for accounting purposes with the SunPower Project Entities (as defined below) being considered the acquirer of the interests contributed by First Solar in the First Solar Project Entities (as defined below). Therefore, the SunPower Project Entities constitute the "Predecessor." As used herein, the term "Project Entities" refers to:

- the SunPower Project Entities, including:
  - Solar Star California XXX, LLC and Solar Star California XXX (2), LLC (collectively, the "Macy's Project Entities"), which holds the Macy's Project (as defined in the glossary in this Quarterly Report on Form 10-Q (the "Glossary"));
  - Solar Star California XIII, LLC (the "Quinto Project Entity"), which holds the Quinto Project (as defined in the Glossary);
  - Solar Star California XXXI, LLC (the "RPU Project Entity"), which holds the RPU Project (as defined in the Glossary);
  - Solar Star California XXXII, LLC (the "UC Davis Project Entity"), which holds the UC Davis Project (as defined in the Glossary);
  - SunPower Residential I, LLC (the "Residential Portfolio Project Entity"), which holds the Residential Portfolio Project (as defined in the Glossary); and
- the First Solar Project Entities, including:
  - Lost Hills Solar, LLC (the "Lost Hills Project Entity"), which holds the Lost Hills Project, and Blackwell Solar, LLC (the "Blackwell Project Entity"), which holds the Blackwell Project (the Lost Hills Project and the Blackwell Project, each defined in the Glossary, together constitute the "Lost Hills Blackwell Project");
  - Maryland Solar, LLC (the "Maryland Solar Project Entity"), which holds the Maryland Solar Project (as defined in the Glossary);
  - North Star Solar, LLC (the "North Star Project Entity"), which holds the North Star Project (as defined in the Glossary); and
  - SG2 Imperial Valley, LLC (the "Solar Gen 2 Project Entity"), which owns the Solar Gen 2 Project (as defined in the Glossary).

In connection with the IPO, SunPower contributed a nearly 100% interest in each of the SunPower Project Entities to OpCo, subject, in the case of the Quinto Project, the RPU Project, the UC Davis Project and the Macy's Project, to the tax equity investor's right to a varying portion of the cash flows from the projects. In connection with the IPO, First Solar directly contributed to OpCo a 100% interest in the Maryland Solar Project Entity and indirectly contributed to OpCo a 49% economic interest in each of the Lost Hills Blackwell Project, the North Star Project and the Solar Gen 2 Project.

For all periods prior to the IPO, the accompanying unaudited condensed consolidated financial statements and the notes thereto, represent the results of the condensed combined carve-out statements of the Predecessor and were prepared using SunPower's historical basis in assets and liabilities. For all periods subsequent to the IPO, the accompanying unaudited condensed consolidated financial statements and the notes thereto, represent the results of 8point3 Energy Partners LP which consolidates OpCo through its controlling interest. All significant inter-entity accounts and transactions have been eliminated in consolidation.

Throughout the periods presented in the Predecessor's condensed combined carve-out financial statements, the Predecessor did not exist as a separate, legally constituted entity. The Predecessor's condensed combined carve-out financial statements were therefore derived from SunPower's consolidated financial statements to represent the financial position and performance of the Predecessor on a stand-alone basis during those periods in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The

8point3 Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements — Continued

Predecessor’s management made allocations to approximate operating activities and cash flows as well as allocations of certain corporate expenses and believes the assumptions and methodology underlying the allocations are reasonable.

The Partnership’s unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. The December 28, 2014 balance sheet data was derived from audited financial statements of the Predecessor. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of normal, recurring items) necessary to state fairly its financial position, results of operations and cash flows for the periods presented.

The unaudited condensed consolidated financial statements included herein should be read in conjunction with the Prospectus, which contains the Predecessor’s audited combined carve-out financial statements and notes thereto for and as of the years ended December 28, 2014 and December 29, 2013, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations. The results shown herein are not necessarily indicative of the results to be expected in any future periods.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in the Partnership's unaudited condensed consolidated financial statements and the accompanying notes. Such reclassifications had no effect on previously reported results of operations or accumulated earnings (deficit).

Fiscal Years

On June 24, 2015, in connection with the closing of the IPO, the Partnership amended its partnership agreement to include a change in the fiscal year to November 30. The Predecessor had a 52-to-53 week fiscal year that ended on the Sunday closest to December 31. Its 2014 fiscal year ended on December 28, 2014 and its 2013 fiscal year ended on December 29, 2013, each of which were 52-week fiscal years. Each of the fiscal quarters in the fiscal years 2014 and 2013 comprised 13 weeks. The first quarter and second quarter of fiscal 2015 ended on March 29, 2015 and June 28, 2015, respectively, and comprised 13 weeks. The third quarter of fiscal 2015 includes the period from June 1, 2015 to August 31, 2015, consistent with the Partnership’s November 30 fiscal year end. The corresponding third quarter for the prior year includes the Predecessor’s period from June 30, 2014 to September 28, 2014.

The accompanying unaudited condensed consolidated financial statements cover the period from December 29, 2014 through August 31, 2015, representing the first eight months of the Partnership’s recently adopted fiscal year. The prior year’s comparable nine-month period covers the period from December 30, 2013 through September 28, 2014 and is reported on the basis of the previous fiscal year end of the Partnership’s Predecessor. As a result of the change in the Partnership’s fiscal year end, the quarterly periods of its newly adopted fiscal year do not coincide with the historical quarterly periods previously reported by its Predecessor. Financial information for the three and eight months ended August 31, 2014 has not been included in this Form 10-Q for the following reasons: (i) the three and nine months ended September 28, 2014 provide as meaningful a comparison to the three and eight months ended August 31, 2015 as would the three and eight months ended August 31, 2014; (ii) the Partnership believes that there are no significant factors, seasonal or other, that would impact the comparability of information if the results for the three and eight months ended August 31, 2014 were presented in lieu of results for the three and nine months ended September 28, 2014; and (iii) it was not practicable or cost justified to prepare this information.

Management Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Significant estimates in these unaudited condensed consolidated financial statements include the assumptions and methodology underlying the allocations of expenses incurred on the Predecessor’s behalf, including: allowances for doubtful accounts related to accounts receivable and financing receivables; estimates for future cash flows and economic useful lives of property and equipment; the fair value and residual value of leased solar energy systems; fair value of financial instruments; valuation of certain accrued liabilities such as accrued warranty; and income taxes including the related valuation allowance. Actual results could materially differ from those estimates.

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Costs Related to IPO

Direct costs related to the IPO that were incurred by the Predecessor were deferred and capitalized as part of prepaid expense and other assets on the condensed consolidated balance sheets. These costs include legal and accounting fees as well as other costs directly related to the IPO. These deferred costs have subsequently been accounted for as a reduction in the proceeds of the IPO and a reduction in the balance under our term loan entered into in connection with the IPO as capitalized financing costs. Other formation and offering related fees that were not directly related to the IPO were expensed as incurred in the Predecessor's financial statements. For the three and eight months ended August 31, 2015, $0.3 million and $2.5 million, respectively, has been deferred and capitalized, and $0.2 million and $1.6 million, respectively, has been expensed as part of selling, general and administrative ("SG&A") expenses.

Note 2. Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their respective fair values due to their short-term maturities. Derivative financial instruments are carried at fair value based on quoted market prices for financial instruments with similar characteristics. The Partnership has interest rate swap agreements that economically hedge the cash flows for the term loan facility, which are not designated as cash flow hedges. Therefore, the changes in fair value are recorded in other expense in the unaudited condensed consolidated statement of operations as these hedges are not accounted for under hedge accounting. In addition, the Predecessor entered into interest rate swap agreements, designated as cash flow hedges, in the fourth quarter of the year ended December 28, 2014 on the outstanding and forecasted future borrowings under the Quinto Credit Facility to reduce the impact of changes in interest rates; unrealized gains and losses of the effective portion of derivative financial instruments are excluded from earnings and reported as a component of accumulated other comprehensive loss in the condensed consolidated balance sheets. The ineffective portion of derivatives financial instruments are included in other expense (income), net in the condensed consolidated statements of operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from non-owner sources. The Partnership's comprehensive income (loss) for each period presented is comprised of (i) its net income (loss); and (ii) changes in unrealized gains or losses for the effective portion of derivatives designated as cash flow hedges.

Equity Method Investments

The Partnership uses the equity method of accounting for equity investments where it has the ability to significantly influence the operations or financial decisions of the investee but does not own a majority interest. It considers the participating and protective rights it has as well as the legal form of the investee when evaluating whether it has the ability to exercise significant influence. Equity method investments are included in “Investment in unconsolidated affiliates” in the accompanying condensed consolidated balance sheets. The Partnership monitors investments in equity affiliates for impairment and records reductions in carrying values if the carrying amount of the investment exceeds its fair value. An impairment charge is recorded when an impairment is deemed to be other-than-temporary. Circumstances that indicate an other-than-temporary decline include factors such as decreases in quoted market prices or declines in operations. The evaluation of an investment for potential impairment requires management to exercise significant judgment and to make certain assumptions. The use of different judgments and assumptions could result in different conclusions. During the three and eight months ended August 31, 2015, no impairment losses were recorded related to the Partnership’s equity method investments.

Cash and Cash Equivalents

The Partnership considers unrestricted cash on hand and demand deposits in banks to be cash and cash equivalents; such balances approximate fair value at August 31, 2015. Highly liquid investments with original or remaining maturities of 90 days or less at the time of purchase are considered cash equivalents.

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Accounts Receivable and Financing Receivable

Accounts receivable: Accounts receivable are reported on the condensed consolidated balance sheets at the outstanding invoiced amount for operating lease customers and test electricity generation customers, respectively, adjusted for any write-offs and estimated allowance for doubtful accounts. The Partnership maintains an allowance for doubtful accounts based on the expected collectability of all accounts receivable, which takes into consideration an analysis of historical bad debts, specific customer creditworthiness and current economic trends. Qualified customers under the residential lease program are required to have a minimum “fair” FICO credit score. The Partnership believes that its concentration of credit risk is limited because of its large number of residential customers, high credit quality of the residential customer base with an average FICO credit score of 765 at the time of initial contract, small account balances for most of these residential customers, and customer geographic diversification. As of August 31, 2015 and December 28, 2014, no allowance for doubtful accounts related to operating leases had been recorded.

Financing receivables: Leases are classified as either operating or sales-type leases in accordance with the relevant accounting guidance. Financing receivables are generated by solar energy systems leased to residential customers under sales-type leases. Financing receivables represent gross minimum lease payments to be received from customers and the systems’ estimated residual value, net of executory costs, unearned income and allowance for estimated losses.

The Partnership recognizes an allowance for losses on financing receivables in an amount equal to the probable losses, net of recoveries and bases such reserves on several factors, including consideration of historical credit losses. As of August 31, 2015 and December 28, 2014, $0.3 million and zero, respectively, had been recorded as allowance for losses on financing receivables.

Property and Equipment

Property and equipment, including photovoltaic (“PV”) solar power systems, are stated at cost, less accumulated depreciation. Leased solar energy systems are depreciated to their estimated residual value using the straight-line method over the lease term of 20 years. Any energy generated by PV solar power systems prior to being placed into service or investment tax credit to which a Sponsor is entitled, reduces the carrying value of the asset by the related amount. Depreciation expense for PV solar power systems is computed using the straight-line method over the shorter of the term of the estimated useful life or the lease on the land. The estimated useful life of a system is reassessed whenever applicable facts and circumstances indicate a change in the estimated useful life of such system has occurred. The estimated useful life of all solar energy systems is 30 years and all systems are physically located in the United States. Depreciation expense for the three and eight months ended August 31, 2015 was $1.2 million and $2.4 million, respectively, and was $0.7 million and $1.6 million for the three and nine months ended September 28, 2014, respectively. Repairs and maintenance costs are expensed as incurred.

Construction-in-Progress

Projects comprised of solar energy systems yet to be leased to residential homeowners and project assets that are still under construction are construction-in-progress and are not depreciated until they are placed in service. At August 31, 2015, the Quinto Project, the RPU Project, the UC Davis Project and the Macy's Project remained under construction.

Long-Lived Assets

The Partnership evaluates its long-lived assets, including property and equipment, construction-in-progress and projects for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review of leased solar energy systems include lease asset depreciation expense greater than associated operating revenue, decrease in the estimated residual value of the leased solar energy system, and inability to collect lease payments due from lessees whether through aging receivables, lease contract amendments or terminations. The impairment evaluation of leased solar energy systems includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If the estimate of future undiscounted net cash flows is insufficient to recover the carrying value of the assets over the remaining estimated useful lives, the Partnership records an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analyses.

With respect to projects, the Partnership considers the project commercially viable if it is anticipated to be operated for a profit once it is fully constructed. The Partnership examines a number of factors to determine if the project will be profitable, including the pricing of the offtake agreement and whether there are any environmental, ecological, permitting, or regulatory conditions that have changed for the project since the start of development. Such changes could cause the cost of the project to increase or the selling price of the electricity to decrease.

Interest Capitalization

Interest incurred on funds borrowed to finance construction of projects is capitalized to construction-in-progress until the system is ready for its intended use. When no debt is specifically identified as being incurred in connection with a construction project, the Partnership capitalizes interest on amounts expended on the project at the Partnership's weighted average cost of borrowed money. The amount of interest capitalized during the three and eight months ended August 31, 2015 was $2.1 million and $3.8 million, respectively, and during the three and nine months ended September 28, 2014 was $0.1 million and $1.2 million, respectively.

Asset Retirement Obligations

In some cases the Partnership operates certain projects under power purchase and other agreements that include a requirement for the removal of the solar energy systems at the end of the term of the agreement. The Partnership accounts for such legal obligations or asset retirement obligations ("AROs") in accordance with U.S. GAAP, which requires that a liability for the fair value of an ARO be recognized in the period in which it is incurred if it can be reasonably estimated with the offsetting, associated asset retirement cost capitalized as part of the carrying amount of the property, plant and equipment. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over the asset's estimated useful life. The Partnership has accrued AROs of $8.5 million as of August 31, 2015. The Predecessor had not accrued any AROs as of December 28, 2014 since it had not significantly commenced construction on any of the projects on the sites.

Contingencies

The Partnership is involved in conditions, situations or circumstances in the ordinary course of business with possible loss contingencies, such as system output performance warranty and residential lease system repairs, that will ultimately be resolved when one or more future events occur or fail to occur. In certain circumstances, the Partnership has hired service providers to mitigate the potential risk of loss. For example, the Partnership provides system output performance warranties under residential lease agreements with homeowners. The operations and maintenance ("O&M") provider, currently a subsidiary of SunPower, also provides system output performance warranties to the Partnership equivalent to those offered by the Partnership to homeowners. As a result, the Partnership records liabilities in connection with these items offset by a corresponding amount in other assets as due from the O&M provider on its consolidated financial statements. As of August 31, 2015, the Partnership recorded $1.4 million in other current liabilities related to system output performance warranties and system repairs and a corresponding amount due from SunPower in other current assets.

If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount will be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range will be accrued. The Partnership continually evaluates uncertainties associated with loss contingencies and records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements; and (ii) the loss or range of loss can be reasonably estimated.

Product Warranties

The Sponsors as the manufacturers generally warrant the performance of the solar panels that they manufacture at certain levels of power output for 25 years. In addition, long-term warranties from the original equipment manufacturers of certain system components, such as inverters, are passed through to customers. Warranties of 25 years from solar panel suppliers are standard in the solar industry, while inverters typically carry warranty periods ranging from five to 10 years. In addition, the Sponsors as providers of engineering, procurement and construction (“EPC”) services generally warrant the workmanship on installed systems for periods ranging up to 10 years, and the Sponsors as providers of O&M services pursuant to the O&M agreements also provide system output performance warranties or availability guarantees. The Predecessor recorded product warranty reserve in connection with the sales-type leases based on its best estimate of such costs and recognized it as a cost of operations. Since the Partnership receives product warranties from its original equipment manufacturers, it no longer records product warranties on its unaudited condensed consolidated financial statements as of August 31, 2015.

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Notes to Unaudited Condensed Consolidated Financial Statements — Continued

Segment Information

The Partnership manages its Initial Portfolio as one segment that operates a portfolio of solar energy generation systems. It operates as a single reportable segment based on the “management” approach.

All operating revenues for the three and eight months ended August 31, 2015 and the three and nine months ended September 28, 2014 were from customers located in the United States. Operating revenues from a customer accounted for 32% and 15% of total operating revenues for the three months and eight months ended August 31, 2015, respectively.

Revenue Recognition

Power Purchase Agreements: Revenue is generated from the sale of energy to various non-affiliated parties under long-term PPAs. Amounts are recognized as revenue based on rates stipulated in the respective PPAs when energy and any related renewable energy attributes are delivered.

Sales-type leases: Certain residential leased solar energy systems are classified as sales-type leases because the net present value (“NPV”) of the minimum lease payments per the contract, excluding the portion of payments representing executory costs, equals or exceeds 90% of the excess of the fair value of the leased property to the lessor at lease inception. For such solar energy systems, the NPV of the minimum lease payments, net of executory costs, is recognized as revenue when the lease is placed in service. This NPV includes fixed and determinable state or local rebates defined in the minimum lease payments under the lease but excludes performance-based incentives (“PBI Rebates”) because these rebates are not fixed and determinable as they relate to the generation of electricity from the leased solar energy system, and therefore, represent contingent revenue recognized upon cash receipt. This NPV, as well as that of the residual value of the lease at termination, are recorded as financing receivables in the condensed consolidated balance sheets. The difference between the initial net amounts and the gross amounts is amortized to revenue over the lease term using the effective interest method. Revenue representing executory costs to operate and maintain the leased solar energy system is recognized on a straight-line basis over the 20-year lease term. The residual values of solar energy systems are determined at the inception of the lease applying an estimated system fair value at the end of the lease term. As all the leases owned by the Predecessor have been placed into service, all revenue related to the NPV of the minimum lease payments has been recognized as of December 28, 2014. Accordingly, other than interest revenue, there was no sales-type lease revenue recognized on the unaudited condensed consolidated financial statements for the three and eight months ended August 31, 2015.

Operating leases: For those residential systems classified as operating leases, revenue associated with renting the solar energy system and executory costs is recognized on a straight-line basis over the 20-year lease term. State or local rebates defined in the minimum lease payments under the lease that are deemed fixed and determinable are recorded as deferred revenue in the condensed consolidated balance sheets when the lease is placed in service and amortized to revenue on a straight-line basis over the 20-year lease term. PBI Rebates representing contingent revenue are recognized upon cash receipt. In addition, the Partnership also recognizes lease revenue for the Maryland Solar Project, which is subject to a solar lease agreement that expires on December 31, 2019, with an affiliate of First Solar as the lessee. Revenue generated primarily from various non-affiliated parties under long-term PPA contracts are accounted for as operating leases.

Operating revenues to date are comprised of revenues generated from solar energy systems leased to residential customers and lease revenue from the Maryland Solar Project. The Partnership is the lessor while the residential customers and an affiliate of First Solar are the lessees.

Noncontrolling Interests

Noncontrolling interests represent the portion of net assets in consolidated subsidiaries that are not attributable, directly or indirectly, to the Partnership. The largest portion of noncontrolling interest in the Partnership relates to the Sponsor’s ownership in OpCo. In addition, the Partnership has entered into certain tax equity transactions with third-party investors under which the investors are determined to hold noncontrolling interests in entities fully consolidated by OpCo. The net assets of the shared entities are attributed to the controlling and noncontrolling interests based on the terms of the governing contractual arrangements. Therefore, for the tax equity transactions, the Partnership further determined the hypothetical liquidation at book value method (the “HLBV Method”) to be the appropriate method for attributing net assets to the controlling and noncontrolling interests as this method most closely mirrors the economics of the governing contractual arrangements. Under the HLBV Method, the Partnership allocates recorded income (loss) to each investor based on the change, during the reporting period, of the amount of net assets each investor is entitled to under the governing contractual arrangements in a liquidation scenario. The Partnership accounts for the portion of net assets using the HLBV Method in the consolidated entities attributable to the investors as “Redeemable noncontrolling interests” and “Noncontrolling interests” in its unaudited condensed consolidated financial statements. Noncontrolling interests in subsidiaries that are redeemable at the option of the noncontrolling interest holder are classified as “Redeemable noncontrolling interests in subsidiaries” between liabilities and equity on the condensed consolidated balance sheets.

Cost of Operations

Cost of operations includes O&M costs related to the operating projects as well as cost recognized on sales-type leases and is recognized when the leased solar energy system is placed in service or sold. Cost recognized on sales-type leases includes initial direct costs to complete a leased solar energy system, such as costs for constructing a solar energy system inclusive of dealer payments, freight charges and direct lease costs.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when management cannot conclude that it is more likely than not that some portion or all deferred tax assets will be realized.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Partnership, which has elected to be treated as a corporation for federal income tax purposes, recognizes potential liabilities for anticipated tax audit issues in the United States based on its estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period in which the Partnership determines the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to expense would result. The Partnership accrues interest and penalties on tax contingencies, which are not considered material.

Business Combinations

The Partnership records all acquired assets and liabilities at fair value. The judgments made in the context of the purchase price allocation can materially impact the Partnership’s future results of operations. Accordingly, for significant acquisitions, the Partnership obtains assistance from third-party valuation specialists. The valuations calculated from estimates are based on information available at the acquisition date. The Partnership charges acquisition related costs that are not part of the consideration to SG&A expense as they are incurred. These costs typically include transaction and integration costs, such as legal, accounting, and other professional fees.

Share-Based Compensation Expense

The Partnership measures compensation expense for all share-based payment awards based on estimated grant-date fair values of Class A shares, and accounts for share-based compensation expense by amortizing the fair value on a straight-line basis over the requisite vesting period, less estimated forfeitures. Share-based compensation expenses for the three and eight months ended August 31, 2015 were $0.1 million and were included in SG&A expense.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the "FASB") issued an update to the standards for the presentation of debt issuance costs to reduce complexity in accounting standards and to align with International Financial Reporting Standards. The updated standard requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. U.S. GAAP previously required debt issuance costs to be reflected as an asset on the Partnership's balance sheet. The new debt issuance cost guidance is effective for the Partnership no later than the first quarter of fiscal 2016 and requires a retrospective approach to adoption. The Partnership has elected early adoption of the updated accounting standard, effective in the second quarter of fiscal 2015. There is no reclassification required as there was no debt issuance cost that was recorded as an asset in the prior periods.

In February 2015, the FASB issued a new standard which modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The new consolidation guidance is effective for the

Partnership in the first quarter of 2016 and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Partnership is evaluating the available methods and the potential impact of this standard on its unaudited condensed consolidated financial statements and disclosure.

In May 2014, the FASB issued a new revenue recognition standard based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB deferred the effective date of this standard for all entities by one year. The new revenue recognition standard becomes effective for the Partnership in the first quarter of fiscal 2019, and is to be applied retrospectively using one of two prescribed methods. The Partnership is evaluating the application method and impact on its unaudited condensed consolidated financial statements and disclosures.

Note 3. Business Combinations

Acquisition accounting is dependent upon certain valuations and other studies that must be completed as of the acquisition date. The judgments made in the context of the purchase price allocation can materially impact the Partnership's future results of operations. For the acquisitions completed during the eight months ended August 31, 2015, the Partnership obtained valuations from a third-party valuation specialist. The valuations calculated from these estimates were based on information available at the acquisition date. Therefore, the Partnership's purchase price allocations are final and not subject to revision.

On June 24, 2015, the Partnership acquired a 100% interest in the Maryland Solar Project Entity, and a 49% indirect interest in each of the Solar Gen 2 Project, the North Star Project and the Lost Hills Blackwell Project, each of which is described in more detail below:

Maryland Solar

The Maryland Solar Project, located in Maryland, represents a fully operational 20 MW grid-connected system contracted to serve a 20-year PPA with FirstEnergy Solutions, a subsidiary of FirstEnergy Corp.

Solar Gen 2

The Solar Gen 2 Project, located in California, is a fully operational 150 MW grid-connected system spanning three separate 50 MW sites. Electricity generated by the three separate systems is contracted to serve a 25-year PPA with San Diego Gas & Electric Company, a subsidiary of Sempra Energy.

North Star

The North Star Project, located in California, is a fully operational 60 MW grid-connected system, which commenced operations in the second quarter of 2015, contracted to serve a 20-year PPA with Pacific Gas and Electric Company, a subsidiary of PG&E Corporation.

Lost Hills Blackwell

The Lost Hills Blackwell Project, located in California, is a fully operational 32 MW grid-connected system, which commenced operations in the second quarter of 2015, contracted to serve a 25-year PPA with Pacific Gas and Electric Company, a subsidiary of PG&E Corporation, starting in 2019. Lost Hills Blackwell is also contracted to serve a short-term PPA with the City of Roseville, California prior to the system’s PPA with Pacific Gas and Electric Company.

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Notes to Unaudited Condensed Consolidated Financial Statements — Continued

The purchase allocation for the acquired assets and liabilities of the above Project Entities is as follows:

(in thousands)	Fair Value
Property, plant and equipment	$56,497
Equity method investment - Solar Gen 2	216,483
Equity method investment - North Star	103,849
Equity method investment - Lost Hills Blackwell	34,121
Asset retirement obligation	(2,130)
Total purchase price	$408,820

The following unaudited pro forma supplementary data gives effect to the acquisitions as if the transactions had occurred on December 30, 2013. The unaudited pro forma supplementary data is provided for informational purposes only and should not be construed as indicative of the Partnership's results of operations had the acquisitions been consummated on the date assumed or of the Partnership's results of operations for any future date.

(in thousands)	Eight Months Ended August 31, 2015	Nine Months Ended September 28, 2014
Operating revenues	$ 9,441	$ 8,742
Net income (loss)	(11,090)	2,338
Net income attributable to 8point3 Energy Partners LP Class A shares	1,849	—
Net income per Class A share - Basic and Diluted	$ 0.09	$ —

Note 4. Investment in Unconsolidated Affiliates

The Partnership obtained the fair values of its investments in unconsolidated affiliates based on an external valuation report as of the date of the IPO.

The Partnership's investments in its unconsolidated affiliates as of August 31, 2015 are as follows:

Projects (in thousands)	August 31, 2015
Investments in unconsolidated affiliates as of IPO	$354,453
Equity in earnings in unconsolidated affiliates during the eight months ended August 31, 2015	6,115
Distributions from unconsolidated affiliates	(4,672)
Investments in unconsolidated affiliates as of August 31, 2015	$355,896

The following table presents summarized financial information for SG2 Holdings, LLC ("SG2 Holdings") and NS Solar Holdings, LLC ("North Star Holdings"), significant investees, as derived from the respective unaudited condensed consolidated financial statements of SG2 Holdings and NS Holdings for the three and eight months ended August 31, 2015:

(in thousands)	Three Months Ended August 31, 2015	Eight Months Ended August 31, 2015
Summary statement of operations information:		
Revenue	$20,814	$36,986
Operating expenses	10,437	23,225
Net income	10,440	13,754

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8point3 Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements — Continued

Note 5. Balance Sheet Components

Financing Receivables

The Partnership's net investment in sales-type leases presented in "Accounts receivable and short-term financing receivables, net" and "Long-term financing receivables, net" on the condensed consolidated balance sheets is as follows:

(in thousands)	As of August 31, 2015	December 28, 2014
Minimum lease payment receivable, net (1)	$107,937	$112,087
Unguaranteed residual value	12,974	13,068
Less: unearned income	(34,464)	(36,742)
Net financing receivables	$86,447	$88,413
Short-term financing receivables, net (2)	$2,350	$2,778
Long-term financing receivables, net	$84,097	$85,635

(1) Allowance for losses on financing receivables was $0.3 million and zero as of August 31, 2015 and December 28, 2014, respectively.
(2) Accounts receivable and short-term financing receivables, net on the condensed consolidated balance sheets includes accounts receivable from operating leases of $0.4 million and $0.1 million and accounts receivable from test electricity generation customers of $1.2 million and zero as of August 31, 2015 and December 28, 2014, respectively.

(in thousands)	As of August 31, 2015	December 28, 2014
Cash grants and rebates receivable		
Cash grants and rebates receivable (1)	$—	$ 1,216
Prepaid expense and other current assets		
Reimbursable network upgrade costs (2)	$5,783	$ —
Other current assets (3)		