

April 8, 2013

## Offering Memorandum

# Mosaic Solar Investments LLC

## \$100,000,000 Solar Power Notes

This Offering Memorandum relates to the offer and sale of up to \$100,000,000 in principal amount of Solar Power Notes (“Notes”) of Mosaic Solar Investments LLC, a California limited liability company (“MSI”). Our principal offices are located at 55 Harrison Street, Suite 300, Oakland, CA 94607, and our telephone number is (888) 305-3929. MSI is a wholly-owned subsidiary of Solar Mosaic, Inc. (“Mosaic”), and the Notes are being offered through Mosaic’s online investment platform.

The Notes will be issued in series, each corresponding to a specific solar power project financed by Mosaic (each, a “Project”). Payment of principal and interest on each series of Notes will be dependent on our receipt of payments on a loan made by MSI or Mosaic to finance the corresponding Project (each, a “Loan”). The borrower with respect to each Loan will be a special purpose entity formed by the owner of the Project for the purpose of holding the assets and liabilities relating to the Project.

Each Loan will mature 12 to 120 months from the date when the Loan is made, and the corresponding series of Notes will mature on the same date as the Loan. Each holder of a Note will be entitled to a pro rata portion of each payment we receive on the corresponding Loan. The Notes will be issued in the minimum amount of twenty-five dollars (\$25).

Important terms of the Notes include the following, as described in greater detail below:

- Our obligation to make payments on a Note will be limited to an amount equal to the holder’s pro rata share of amounts we receive in payment on the corresponding Loan. Neither we nor any other party will guarantee payment of the Notes.
- The Notes will be special, limited obligations of MSI only, and, although repayment of those obligations is based solely upon repayment of the Loan, you will not have any recourse to the borrower under the Loan.
- The Notes will be unsecured obligations of MSI, and you will not have any security interest in any of MSI’s assets, including the Loan, nor will the Notes be secured by any assets of the Project or its owner.
- Each Loan will be secured by the assets of the corresponding Project. In the event of a default on the Loan, any recovery by MSI under this security interest will be shared with investors pro rata, net of any applicable fees as discussed below.

The Notes will be issued at their principal face value, without a discount, and are not being sold through commissioned sales agents or underwriters. See “Plan of Distribution.”

The Notes are being offered and sold pursuant to the exemption from registration provided by Section 3(a)(11) of the Securities Act of 1933, as amended (the “Securities Act”), with respect to intrastate offerings. The Notes may only be purchased by residents of California. This Offering Memorandum shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sales of these securities, in any other state. In addition, the Notes are offered only to investors who meet certain financial suitability requirements or who purchase not more than \$2,500 of Notes in this offering. See “Investor Suitability.”

The Notes will be subject to a restriction on transfer pursuant to the Rules of the California Corporations Commissioner. See “Restriction on Transfer.”

The Notes will not be listed on any exchange or quoted on any automated dealer quotation system. Currently, there is no public market for the Notes.

We will amend this Offering Memorandum whenever the information it contains has become false or misleading in light of existing circumstances and for other purposes, such as to disclose material developments related to the Notes, to update required financial statements or if there has been a fundamental change in the information initially presented. Our amended Offering Memorandum will be posted on our website.

**THESE ARE SPECULATIVE SECURITIES. INVESTMENT IN THE NOTES INVOLVES SIGNIFICANT RISK. YOU SHOULD PURCHASE THESE SECURITIES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. SEE THE “RISK FACTORS” SECTION ON PAGE 7 OF THIS OFFERING MEMORANDUM FOR A DISCUSSION OF THE FOLLOWING AND OTHER RISKS:**

- To the extent we are unable to collect payments under a Loan, we will not be obligated to make the corresponding payment under the Notes.
- When you commit to purchase a Note, the Note may not be issued until up to 90 days after you make your purchase commitment, during which time the funds you have committed toward the purchase of your Notes will not be available for investment in other Notes or for withdrawal from your account. Because your funds do not earn interest while held in your funding account, the delay in issuance of your Note will have the effect of reducing the effective rate of return on your investment.
- We have a limited operating history, and, as an online company in the early stages of development, we face increased risks, uncertainties, expenses and difficulties.
- We will need to raise substantial additional capital to fund our operations, and if we fail to obtain additional funding, we may be unable to continue operations.
- If we were to become subject to a bankruptcy or similar proceeding, your rights could be uncertain, your recovery of any funds due on the Note may be substantially delayed, and any funds you do recover may be substantially less than the amounts due or to become due on the Note.

The estimated costs of this offering are \$375,000. These costs will be paid directly by MSI, and no proceeds of the offering will be used for this purpose.

***The proposed sale of Notes to the public will commence on April 8, 2013 or as soon as practicable thereafter***

## TABLE OF CONTENTS

|   |    |
|---|----|
| <b>Summary</b> .....  | 1  |
| <b>The Offering</b> .....   | 2  |
| <b>Investor Suitability Requirements</b> .....                          | 3  |
| <b>The Notes</b> .....  | 3  |
| <b>Restriction on Transfer</b> .....                                    | 6  |
| <b>Risk Factors</b> .....   | 7  |
| Risks Related to the Borrower and the Project .....                     | 7  |
| Risks Related to Mosaic, MSI and the Investment Platform .....          | 10 |
| Risks Related to Compliance and Regulation .....                        | 17 |
| <b>Special Note Regarding Forward-Looking Statements</b> .....          | 19 |
| <b>Plan of Distribution</b> .....                                       | 19 |
| <b>Use of Proceeds</b> .....  | 20 |
| <b>About Mosaic’s Business</b> .....                                    | 21 |
| Overview .....  | 21 |
| Background .....  | 22 |
| Our Financing Model .....   | 24 |
| How the Investment Platform Operates .....                              | 25 |
| <b>Material U.S. Federal Income Tax Considerations</b> .....            | 35 |
| <b>About Mosaic and MSI</b> .....                                       | 40 |
| Overview .....  | 40 |
| Marketing .....   | 40 |
| Technology .....  | 40 |
| Data Integrity and Security .....                                       | 41 |
| Competition .....   | 41 |
| Government Regulation .....   | 42 |
| Employees .....   | 42 |
| Properties .....  | 42 |
| <b>MSI Financial Information</b> .....                                  | 43 |
| <b>Managers of MSI</b> .....  | 43 |
| <b>Compensation of Managers</b> .....                                   | 44 |
| <b>Principal Stockholders</b> .....                                     | 44 |
| <b>Interests of Management and Others in Certain Transactions</b> ..... | 46 |
| <b>Glossary of Terms</b> .....  | 48 |
| <b>Appendix A – Ronald McDonald House – San Diego, California</b>       |    |

## SUMMARY

Mosaic Solar Investments LLC (“MSI”) is offering up to \$100,000,000 of promissory notes (“Notes”) through an online investment platform (the “Investment Platform”) maintained by MSI’s parent company, Solar Mosaic, Inc. (“Mosaic”). The Investment Platform connects investors with opportunities to invest in solar projects financed by Mosaic (each, a “Project”). Projects typically consist of rooftop or ground-mounted installations of photovoltaic (“PV”) panels that either (a) generate on-site electric power for small businesses or nonprofit or civic organizations, which either lease the solar installation or purchase its electric power output pursuant to a power purchase agreement (“PPA”) or (b) generate power for sale to an electric utility or other “off-taker” pursuant to a PPA. In most instances, the owner of a Project holds the Project’s assets and liabilities through a limited liability company generally referred to as a “special purpose entity” or “SPE.”

Notes offered through the Investment Platform correspond to loans Mosaic or MSI have made to SPEs to finance Projects (“Loans”). The term, interest rate and amortization schedule of each series of Notes substantially mirror the terms of the corresponding Loan, and payments on each series of Notes are dependent on satisfaction of the corresponding loan payment obligations (“Loan Obligations”) on the part of the SPE to which the Loan was made. We sometimes refer to such SPE as a “Borrower.” A Borrower satisfies its Loan Obligations primarily by utilizing cash flow generated by the Project and incentive payments made to the Borrower by federal, state or local government agencies, utilities, or other organizations (“Incentive Payments”). Loan Obligations are secured by the assets of the Project owned by the SPE as well as any related contracts such as the PPA or lease entered into with the solar customer.

The general terms of the Notes are summarized in the following table:

|                           |   |
|---------------------------|---|
| <b>Issuer</b>             | Mosaic Solar Investments LLC  |
| <b>Securities Offered</b> | \$100,000,000 aggregate principal amount of Note, to be issued in series, each series to correspond to a Project financed by Mosaic.  |
| <b>Interest Rate</b>      | The interest rate for each series of Notes will be equal to the interest rate for the corresponding Loan, which, in turn, will be based on negotiations between Mosaic and the Borrower.  |
| <b>Term</b>               | The term of each series of Notes will be between 12 and 120 months from the date when the corresponding Loan is made.   |
| <b>Maturity</b>           | The Notes in each series will mature at the end of the term (the “Initial Maturity Date”), unless any payments in respect of the corresponding Loan Obligations remain due and payable upon such date, in which case the maturity of the Notes will be automatically extended to a date that is 36 months following the Initial Maturity Date (the “Final Maturity Date”). If any of the corresponding Loan Obligations remain outstanding after the Final Maturity Date, we will have no further obligation to make payments on the Notes even if we receive payments on the Loan after the Final Maturity Date. However, because we may, in our sole discretion and, subject to our servicing standards as then in effect, amend, modify, sell to a third-party debt purchaser or charge off the Loan at any time after the 91st day of its delinquency, and because we generally charge off a Loan after it becomes more than one year past due, the Loan may never reach the final maturity date. |
| <b>Payment Dates</b>      | Payments on the Notes will be made monthly or quarterly during the term of the Notes.   |
| <b>Ranking</b>            | The Notes will be unsecured special, limited obligations of MSI. MSI will be obligated to make payments on the Notes only if and to the extent MSI receives   |

payments on the corresponding Loan Obligations. Such payments on Loan Obligations, together with any late payments or settlements, the proceeds from any foreclosure on collateral, or the proceeds from any assignment to a collections agent, will be shared ratably among all owners of Notes. Loan Obligations will be secured by the assets of the Project held by the Borrower.

|                          |  |
|--------------------------|--|
| <b>Prepayment</b>        | The Notes and the corresponding Loan Obligations will be prepayable without penalty.   |
| <b>Use of Proceeds</b>   | The proceeds will be used for the purchase of corresponding Loans from Mosaic or to repay funds we have borrowed to fund Loans we have originated directly.  |
| <b>Secondary Trading</b> | <p>The Notes do not contain any provision restricting their transferability, other than a requirement that any transferee become registered as an investor with Mosaic. However, the Notes will not be listed on any securities exchange, nor do we have plans to establish any kind of trading platform to assist investors who wish to sell their Notes. Neither Mosaic nor MSI will facilitate or otherwise participate in the secondary transfer of any Note. There is no public market for the Notes, and none is expected to develop.</p> <p>Notes will be subject to a restriction on transfer. See “The Offering—Description of the Notes—No Public Market.”</p> |
| <b>Risk Factors</b>      | See “Risk Factors” for a discussion of certain factors that you should carefully consider before investing in the Notes.   |
| <b>Governing Law</b>     | The Notes will be governed by and interpreted in accordance with the laws of the State of California.  |

MSI was formed as a California limited liability company for the purpose of, among other things, offering Notes to California residents pursuant to the intrastate offering exemption under Section 3(a)(11) of the Securities Act. Notes offered by MSI correspond to Loans originated by MSI or Loans originated by Mosaic and subsequently assigned to MSI. Notes offered by MSI will be listed on the Investment Platform together with Notes offered by Mosaic, and Mosaic will act as MSI’s agent for purposes of handling investor funds and maintaining ownership records with respect to outstanding Notes.

MSI charges investors a monthly management fee that is based on a percentage of the total value of the unpaid principal of all Notes held by the investor and any cash in the investor’s account, subject to certain exceptions. This management fee is currently set at a rate equal to 1.0% per year.

## THE OFFERING

***This offering involves a significant degree of risk. Investors are strongly advised to carefully review the Risk Factors section starting on page 7 of this Offering Memorandum before investing in the Notes.***

We are offering up to \$100,000,000 in Notes through the Investment Platform. Payment of principal and interest on the Notes will be dependent on our receipt of payments on Loans that have been originated by Mosaic to finance Projects and subsequently assigned to us or Loans originated directly by MSI. The term, interest rate and amortization schedule of each series of Notes substantially mirror the terms of the corresponding Loan, and payment on those Notes is dependent upon our receipt of payment on the corresponding Loan.

We will offer Notes in series through the Investment Platform. Each series will correspond to a single Project. The initial series of Notes offered hereby are described in Appendixes A and B. Each subsequent series of Notes will be described in a supplement to this Offering Memorandum, which we refer to as a “Project

Supplement.” Each Project Supplement will be posted on Mosaic’s website and will include information substantially similar to that included in Appendixes A and B, including:

- principal amount, interest rate, maturity and amortization terms of the Notes;
- description of the Project, the owner of the Project (the “Owner”) and the site where the power generating equipment is installed (the “Site”);
- description of the party that will be leasing the solar installation or purchasing its power output (the “Solar Customer”); and
- financial information about the Borrower and the Solar Customer.

### **INVESTOR SUITABILITY REQUIREMENTS**

The Notes offered hereby may only be purchased by investors residing in California. Investors who invest more than \$2,500 in our Notes in any 12-month period must have either (1) a minimum annual gross income of \$70,000 and a minimum net worth of \$70,000, exclusive of automobile, home and home furnishings, or (2) a minimum net worth of \$250,000, exclusive of automobile, home and home furnishings. In addition, no investor may invest more in this offering than an amount equal to 10% of the investor’s net worth.

### **THE NOTES**

Notes will be issued in series. Each series of Notes will correspond to a Project, and payment will depend on payments we receive on the Loan Obligations related to that Project.

The Notes are U.S. dollar denominated, are fully amortizing and are payable in variable monthly installments. We have no obligation to make any payments on the Notes unless, and only to the extent that, we have received payments on the related Loan, which, in turn, will be funded primarily by payments by the Solar Customer under the PPA or lease relating to the Project.

#### **Maturity**

Each Loan will have a term of 12 to 120 months, and the Notes will mature upon the expiration of the term of the corresponding Loan. If there are amounts owing to MSI in respect of the Loan at the initial maturity date, the term of the Notes will be automatically extended by three years, which we refer to as the “final maturity,” to allow Note holders to receive any payments that we receive on the Loan after initial maturity. Any such payments will continue to bear interest at the applicable rate under the Loan. The Notes may never reach maturity, however, because each Loan may be prepaid without penalty, and because we may, in our sole discretion and subject to our servicing standards, amend, modify or assign our rights under the Loan to a third party or charge off the Loan at any time after the 91st day of its delinquency. Following the final maturity of a Note, the holder of that Note will have no right to receive any further payments from MSI even if the Borrower, under the corresponding Loan, or a bankruptcy trustee, subsequently remits payments to MSI or the servicer of the Loan.

#### **Ranking**

The Notes will be unsecured special, limited obligations of MSI. MSI will be obligated to make payments on the Notes only if and to the extent MSI receives principal and interest payments from the Borrower on the corresponding Loan. Such payments, in turn, will be funded primarily by payments by the Solar Customer under the PPA or lease relating to the Project. Payments on the Loan will be shared ratably among all holders of the Notes. In the event of a bankruptcy or similar proceeding of MSI, the relative rights of the holder of a Note as compared to the holders of other unsecured indebtedness of MSI with respect to payment from the proceeds of the Loan Obligations or other assets of MSI is uncertain. See “Risk Factors—If we were to become subject to a bankruptcy or similar

proceeding, the rights of the holders of the Notes could be uncertain, and the recovery, if any, of a holder on a Note may be substantially delayed and substantially less than the amounts due and to become due on the Note.”

## **Payments**

Subject to the limitations described below under “Limitations on Payments,” we will make installment payments on the Notes upon receiving payments in respect of the corresponding Loan, in accordance with the payment schedule for the Notes. Mosaic is acting as our agent for purposes of collecting payments on Loans and disbursing corresponding payments on the Notes. The Notes will have a payment schedule providing for periodic payments over a term equal to the corresponding Loan, with the payment dates falling on or before the 10th business day after the due date for each installment of a payment on the corresponding Loan. “*Business Day*” means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which (1) the ACH System is closed or (2) banking institutions in San Francisco, California or New York, New York are authorized or obligated to close.

We request an ACH payment from the Borrower on the business day prior to the payment due date, and normally receive payment the following business day. A payment by the Borrower is initially deposited in our clearing account upon receipt and may not be distributed to the Note holder’s funding account until as late as the 10th business day after the ACH payment was requested and the short return window for ACH funds has expired. Investors can review their account statements online and see that they have received payment on the Notes beginning on the 10th business day after the ACH payment was requested. The same process occurs upon maturity of the Note. Although payment under the Notes is made up to 10 business days after the applicable payment and maturity date, MSI treats the payment date and maturity date of the Note to be the same as the dates applicable to the corresponding Loan Obligations.

## **Limitations on Payments**

Any amounts received on Loan Obligations will be forwarded by MSI to the holders of the corresponding Notes. Each Note holder’s right to receive installment payments and other amounts in respect of that Note is limited in all cases to the holder’s pro rata portion of the amounts received by MSI in connection with the corresponding Loan, including, without limitation, all principal and interest payments, prepayments, partial payments, late payments or settlements, the proceeds from any foreclosure on collateral, or the proceeds from an assignment to a collections agent. To the extent we do not receive a required payment on a Loan, we will not make any payments on the Notes related to that payment (or the portion thereof that we do not receive, in the case of a partial payment), and a holder of a Note will not have any rights against MSI or the Borrower in respect of the Note or the Loan Obligations corresponding to such holder’s Note.

In the event the Loan is serviced by a backup servicer, that servicer may charge a servicing fee on amounts collected. In addition, in the event we are required to pursue collection actions on the Loan, we may withhold a collection fee of up to 35% of amounts collected (or such greater amount of as we incur in legal fees and costs in the event of litigation). We will not pay you any unsuccessful payment fees or collection fees we or a third-party charge, and such fees will be retained by the party receiving the fee as additional servicing compensation. We will pay you any late fees we receive on Loan Obligations. Any prepayments received on a Loan corresponding to Notes will be paid ratably to the Note holders.

The “*unsuccessful payment fee*” is a fee charged by MSI or a third-party servicer or collection agency when a payment request is denied or a check is returned unpaid for any reason, including but not limited to, insufficient funds in the Borrower’s bank account or the closing of that bank account. The unsuccessful payment fee currently charged by MSI on Loan Obligations is \$35 or such lesser amount permitted by law.

The Notes will mature on the initial maturity date, unless any scheduled payments in respect of the corresponding Loan remain due and payable upon the initial maturity date, in which case the maturity of the Notes will be automatically extended to the final maturity date and the unpaid portion of the Loan will continue to accrue interest at the applicable rate. If we receive any payments from the Borrower after the final maturity date of a Note, we may retain 100% of these payments and will not be obligated to distribute those payments to Note holders.

## **Prepayments**

To the extent that a Borrower prepays a Loan, holders of Notes related to that Loan will be entitled to receive their pro rata shares of the prepayment.

## **Notification Requirements**

Under the Investor Agreement (described below), if Mosaic has breached its representations and warranties, it agrees to notify investors within 90 days after it becomes aware of such breach, and it also agrees to notify them whether it has elected either to cure the breach or to repurchase the applicable Note. Mosaic keeps investors apprised of the payment status of Loans by identifying Loans on its website as “current,” “Late (15-30 days),” “Late (31-60 days),” “Late (61-90 days),” “Late (91-120 days)” or “Late (over 121 days).” Loans that become more than one year overdue are charged off and designated as such on Mosaic’s website. Investors are able to monitor the Loan corresponding to their Notes, but cannot participate in or otherwise intervene in the collection process.

If the terms of any Loan are modified, Mosaic will notify the Note holders via email of the material terms of the modifications of the Loan and the effect such changes will have on their Notes, including changes to payments they will receive under the Notes.

## **Denominations, Form and Registration**

We will issue the Notes only in registered form and only in electronic form. This means that each Note will be stored on Mosaic’s website. You can view a record of the Notes you own and the form of your Notes online and print copies for your records by visiting your secure, password-protected webpage in the “My Account” section of Mosaic’s website. We will not issue certificates for the Notes. Investors will be required to hold their Notes through Mosaic’s electronic Note register.

We will treat the investors in whose names the Notes are registered as the owners thereof for the purpose of receiving payments and for all other purposes whatsoever with respect to the Notes.

## **No Public Market**

The Notes do not contain any provision restricting their transferability, other than a requirement that any transferee register as an investor with Mosaic. However, the Notes will not be listed on any securities exchange, nor do we or Mosaic have plans to establish any kind of trading platform to assist investors who wish to sell their Notes. There is no public market for the Notes, and none is expected to develop. Accordingly, you may be required to hold your Notes to maturity.

## **No Sinking Fund**

The Notes are fully amortizing and will not have the benefit of a sinking fund.

## **Events of Default**

The Notes provide that each of the following constitutes an “Event of Default” with respect to the Notes:

- our failure to make a payment under the Notes within sixty (60) days after such payment is due;
- entry by a court of competent jurisdiction of (i) a decree or order in respect of MSI in an involuntary case or proceeding under any applicable federal or state bankruptcy law (“Bankruptcy Law”) or (ii) a decree or order for relief adjudging MSI bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of or in respect of MSI under any applicable federal or state law, or appointing a custodian, receiver, liquidator, trustee or similar official for MSI or any substantial part of

its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief remains in effect or is unstayed and in effect for a period of 60 consecutive days; or

- (i) MSI's commencement of a voluntary case or proceeding under any applicable Bankruptcy Law or any other case or proceeding to be adjudicated bankrupt or insolvent, (ii) MSI's consent to the entry of a decree or order for relief in respect of MSI in an involuntary case or proceeding under any applicable Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding against it, (iii) MSI's filing a petition, answer or consent seeking reorganization or substantially comparable relief under any applicable federal state law, or (iv) MSI's (1) consent to the filing of such petition by, the appointment of, or taking possession by, a custodian, receiver, liquidator, trustee or similar official of MSI or of any substantial part of its property, or (2) assignment for the benefit of creditors.

It is not a default or event of default under the terms of the Notes if we do not make payments when a Borrower does not make payments on the corresponding Loan. See "Risk Factors—Risks Related to the Borrower and the Project," for more information. An event of default with respect to one series of Notes is not deemed to be an event of default for any other series.

If any Event of Default relating to our bankruptcy or insolvency occurs and is continuing, at the option of the holders, the entire outstanding principal balance due under the Notes and all accrued and unpaid interest on the Notes will become immediately due and payable by us without further action or notice at the option of the holders.

#### **Governing Law**

The Notes will be governed by the laws of the State of California without regard to any principle of conflict of laws that would require or permit the application of the laws of any other jurisdiction.

#### **RESTRICTION ON TRANSFER**

The Notes are subject to a restriction on transfer pursuant to Section 260.141.11 of the Rules of the California Corporations Commissioner. Pursuant to this section, a Note may not be transferred unless (i) the California Department of Corporations consents to the removal of the transfer restriction, (ii) the transfer is qualified by the Department of Corporations, or (iii) the transfer is made pursuant to an applicable exemption from the qualification requirements. We will furnish each purchaser of a Note with a copy of Section 260.141.11, which sets forth the conditions under which Notes may be transferred.

## RISK FACTORS

*Investing in the Notes involve a high degree of risk. In deciding whether to purchase Notes, you should carefully consider the following risk factors. Any of the following risks could have a material adverse effect on the value of the Notes you purchase and could cause you to lose all or part of your initial purchase price or could adversely affect future payments you expect to receive on the Notes. Only investors who can bear the loss of their entire purchase price should purchase Notes.*

### **Risks Related to the Borrower and the Project**

***Payments on the Notes depend entirely on the payments received from the Borrower. If we do not receive such payments from the Borrower, you will not receive any payments on your Note.***

We will pay principal and interest on the Notes only to the extent we receive payments on the corresponding Loan Obligations. Loan Obligations will be paid primarily out of monthly PPA payments received by the Borrower from the Solar Customer. If the Solar Customer defaults on its payment obligations under the PPA, it is likely that the Borrower will be unable to pay the corresponding Loan Obligations, and you will not be entitled to the corresponding payments under the terms of the Notes.

***The Notes are special, limited obligations of MSI only and are not secured by any collateral or guaranteed or insured by any third party.***

The Notes are special, limited obligations of MSI and will not represent an obligation of the Borrower, the Solar Customer or any other party except MSI. The Notes are not secured by any collateral and are not guaranteed or insured by any governmental agency or instrumentality or any third party.

***The payment obligations of the Solar Customer under its PPA are not guaranteed or insured by any third party, and, in the event of a default, you must rely on the Borrower or a third-party collection agency to pursue collection against the Solar Customer.***

The payment obligations of the Solar Customer under its lease or PPA are not guaranteed or insured by any third party or backed by any governmental authority in any way. In the event of a default on such payment obligations, therefore, MSI may be limited in its ability to collect on the Borrower's corresponding Loan Obligations, and MSI and you may need to rely on the Borrower or a third-party collection agency to pursue collection against such Solar Customer. If the Borrower fails to make payments on the Loan, you will not receive the corresponding payments on your Note.

***You will not receive any payments we may receive after the final maturity date of your Note.***

The Notes will mature on the initial maturity date, unless any installment payments in respect of the corresponding Loan Obligations remain due and payable upon the initial maturity date, in which case the maturity of the Notes will be automatically extended to the final maturity date. If we receive any payments from the Borrower after the final maturity date, we may retain 100% of these payments and will not be obligated to distribute those payments to you.

***Solar projects involve considerable risk, which may affect the Borrower's ability to make payments on the Loan.***

Solar projects are inherently risky, and the risks they involve may affect the Borrower's ability to make payments on the Loan. The risks involved in solar projects include the following:

- The project may produce less energy than expected due to unrealistic forecasts, changes in local weather patterns, inexperience on the part of the project operator or defective or unreliable solar power equipment. Under a PPA, the SPE's revenue is directly attributable to the amount of energy produced by the solar installation.

- Warranties on solar power equipment may become worthless if the equipment supplier has ceased operations.
- The solar customer may experience difficulties in making required payments under the lease or PPA due to a decline in its revenue, an increase in costs, or bankruptcy.
- Incentive Payments may be at risk if the related incentive program becomes depleted or is discontinued, or if the paperwork to receive the incentive is not filled out properly.

Any of these risks could affect the success of the Project and the Borrower's ability to make payments on the Loan, which would, in turn, reduce or eliminate payments on the Notes.

***The success of each Project is dependent on the performance of third parties over which we have no control.***

With respect to a typical project, the Owner, which controls the Borrower and the Project, is responsible for various management functions that are essential to the success of the Project, including filings with government agencies, payment of bills and maintenance of insurance. Poor management on the part of the Owner could adversely affect the financial performance of the Project or expose the Project to unanticipated operating risks, which could reduce the Project's cash flow and adversely affect the Borrower's ability to repay the Loan. Mosaic's standard form of Loan and Security Agreement prohibits the Borrower from effecting a change in control without our consent, which consent shall not be unreasonably withheld. Notwithstanding that provision, we may not have the opportunity to fully evaluate a party to which the Owner wishes to sell the Project, and, following such sale, that party may not manage the Project as effectively as the original Owner.

***Revenues from a Project could fall short of the amounts projected.***

The payment schedules with respect to many Loans are based on projected revenues generated by the Project over the term of the Loan. These projections are based on factors such as the amount of sunlight that normally occurs during different months and the expected performance of the power generating equipment. The actual revenues generated by a Project could fall short of projections due to factors such as unexpected amounts of cloud cover or greater-than-expected degradation in performance of power generating equipment. In such event, the Borrower's cash flow could be inadequate to repay the Loan in full.

***The Borrower's assets may provide little protection against an unexpected drop in revenues from the Project or an increase in expenses.***

In a typical Project, most of the Borrower's assets consist of power generating equipment rather than cash or other liquid assets. As such, the Borrower's liquid assets (consisting of cash and other short term assets) may provide an inadequate protection against circumstances such as a default on the lease or PPA by the Solar Customer, other circumstances that cause Project revenues to fall short of projections, or unexpected increases in Project expenses. Although the Owner will typically be motivated to keep the Borrower solvent in order to protect the Owner's equity investment in the Borrower, any such shortfall in revenues or increase in expenses could result in the Borrower defaulting on the Loan.

***Insurance against risks faced by a Project could become more costly or could become unavailable altogether.***

Projects are typically insured against risks such as damage to the equipment caused by severe weather or accident. Changes in the conditions affecting the equipment or the economic environment in which insurance companies do business could affect the Borrower's ability to continue insuring the Project at a reasonable cost or could result in insurance being unavailable altogether. For example, many climate models indicate that global climate change will cause an increase in the frequency and severity of extreme weather events such as hurricanes and tornadoes that pose a significant risk of damage to solar panels and other equipment. Such increased risk could result in higher insurance premiums or could cause some insurance companies to stop offering insurance in certain geographic regions.

***The information relating to a Project may be inaccurate or may not accurately reflect the Solar Customer's creditworthiness.***

The information in this Offering Memorandum or a Project Supplement regarding a Project may not reflect the Solar Customer's actual creditworthiness because the information may be incomplete or based on outdated or inaccurate data. Mosaic does not verify the information obtained from the Solar Customer. If the financial information we disclose regarding the Solar Customer is confidential (as is usually the case if the Solar Customer is privately held), we may withhold the name of the Solar Customer. Investors are given no ability to verify the information provided with respect to the Solar Customer, nor will we verify that information at the request of an investor. Additionally, there is a risk that, after Mosaic has completed its credit review, the Solar Customer may have:

- become delinquent in the payment of or defaulted under an outstanding obligation;
- taken on additional debt; or
- sustained other adverse financial events.

Inaccuracies in the information obtained from the Solar Customer or subsequent events that reduce the Solar Customer's creditworthiness may increase the risk that the Solar Customer will default on its lease or PPA, which will increase the risk that the Notes will not be repaid in full.

***Mosaic has an incentive to take on as many Projects as possible, which could impair its ability to devote adequate attention and resources to collection of Loan Obligations.***

A significant portion of Mosaic's revenues is derived from origination fees generated through financing of Projects. As a result, it has an incentive to finance as many projects as possible to maximize the amount of origination fees it is able to generate. Increased project volume increases the demands on its management resources and its ability to devote adequate attention and resources to the collection of Loan Obligations. In the event Mosaic takes on project volumes that exceed its ability to service outstanding Loans, our ability to make timely payments on the Notes will suffer.

***Default rates on leases and PPAs by Solar Customers may increase as a result of economic conditions beyond our control.***

Default rates by Solar Customers on leases and PPAs may be significantly affected by economic downturns or general economic conditions beyond our control. In particular, default rates on leases or PPAs on which Borrowers are substantially dependent for repayment of their Loan Obligations may increase due to factors such as declining revenues or increased operating expenses of the solar customer, the ability of the Solar Customer to collect on accounts receivable or other amounts owed, lawsuits brought or legal judgments against the Solar Customer, changes in commercial lending terms including the calling of letters of credit or other debt obligations, unexpected changes in management of the Solar Customer, or other impacts on the operations and finances of the solar customer that result in a shortage of cash available to satisfy its obligations under the lease or PPA. In the event of a default on the lease or PPA related to a series of Notes, we may be unable to repay those Notes in full.

***Mosaic does not take any specific actions to monitor how funds are spent after they have been disbursed to the Borrower.***

When Mosaic finances a Project, its primary assurance that the financing proceeds will be properly spent by the Borrower is the contractual covenants agreed to by the Borrower, the business history and reputation of the Owner. Should the proceeds of a financing be diverted improperly, the Project might become insolvent, which could cause the purchasers of the corresponding Notes to lose their entire investment.

## **Risks Related to Mosaic, MSI and the Investment Platform**

***Mosaic and MSI have limited operating histories. As companies in the early stages of development, Mosaic and MSI face increased risks, uncertainties, expenses and difficulties.***

Mosaic and MSI have limited operating histories. Mosaic was formed as a Colorado limited liability company in October 2010 and became a Delaware corporation in May 2012, and the Investment Platform has been operated in its current form only since September 2012. MSI was formed in October 2012 for the purpose of offering Notes in California pursuant to the intrastate offering exemption under Section 3(a)(11) of the Securities Act; it has not issued Notes prior to this offering, nor has it held or serviced any Loans to date.

For MSI and Mosaic to be successful, the number of Projects and investors that use Mosaic's platform and the volume of financings originated through that platform will need to increase, which will require Mosaic to increase its facilities, personnel and infrastructure to accommodate the greater servicing obligations and demands on the platform. Mosaic's platform is dependent upon its website to maintain current listings and transactions in Notes. To satisfy MSI's and Mosaic's servicing obligations on Loans and make payments on Notes, Mosaic must constantly update its software and website, expand its customer support services and retain an appropriate number of employees to maintain the operations of its platform. If Mosaic is unable to increase the capacity of its platform and maintain the necessary infrastructure, you may experience delays in receipt of payments on the Notes and periodic downtime of Mosaic's systems.

***Mosaic will need to raise substantial additional capital to fund its operations, and if it fails to obtain additional funding, it may be unable to continue operations.***

At this early stage in its development, Mosaic has funded substantially all of its operations with proceeds from private financings from individual investors and venture capital firms. To date, it has raised approximately \$3.5 million through private sales of convertible debt and preferred stock. To continue the development of its platform, Mosaic will require substantial additional funds. To meet its financing requirements in the future, it may raise funds through equity offerings, debt financings or strategic alliances. Raising additional funds may involve agreements or covenants that restrict Mosaic's business activities and options. Additional funding may not be available to it on favorable terms, or at all. If Mosaic is unable to obtain additional funds, it may be forced to reduce or terminate its operations.

***Mosaic has incurred net losses in the past and expect to incur net losses in the future.***

Mosaic has incurred net losses in the past and expects to incur net losses in the future. Its failure to become profitable could impair the operations of the Investment Platform by limiting its access to working capital to operate the platform. Mosaic's accumulated deficit as of December 31, 2012 was approximately \$2.3 million, and its net loss for the year ended December 31, 2012 was approximately \$2.1 million. Mosaic has not been profitable since its inception, and it may not become profitable. In addition, it expects its operating expenses to increase in the future as it expands its operations. If Mosaic's operating expenses exceed its expectations, its financial performance could be adversely affected. If its revenue does not grow to offset these increased expenses, it may never become profitable. In future periods, Mosaic may not have any revenue growth, or its revenue could decline.

***Because we are a limited liability company, Mosaic is not liable for the obligations we incur, which reduces its incentive to ensure that such obligations are satisfied.***

We are a limited liability company, and all of our equity interests are controlled by Mosaic. As with a corporation, the owners of a limited liability company are not liable for the company's obligations, and their financial exposure relating to such obligations is generally limited to the risk that they may lose their investment in the company should it become insolvent. We believe that, should we incur liabilities that exceed our ability to satisfy them, Mosaic would be motivated to invest additional capital in order to protect its equity interest in MSI and avoid the damage to its investor relations that would result if we defaulted on our Notes. There is no assurance, however, that Mosaic would conclude under all circumstances that the benefits of such investment outweighed the

cost. If the amount of capital required to keep us solvent became great enough, Mosaic could opt to permit us to enter into bankruptcy proceedings and default on our Notes rather than investing such capital.

***If we were to become subject to a bankruptcy or similar proceeding, the rights of the holders of the Notes could be uncertain, and the recovery, if any, of a holder on a Note may be substantially delayed and substantially less than the amounts due and to become due on the Note.***

In the event of MSI's bankruptcy or a similar proceeding, the rights of investors to continue receiving payments on the Notes could be subject to the following risks and uncertainties:

- Interest on the Notes may not accrue during a bankruptcy proceeding. Accordingly, if investors received any recovery on their Notes, any such recovery might be based on the investors' claims for principal and interest accrued only up to the date the proceeding commenced.
- Our obligation to continue making payments on the Notes would likely be suspended even if the funds to make such payments were available. Because a bankruptcy or similar proceeding may take months or years to complete, even if the suspended payments were resumed, the suspension might effectively reduce the value of any recovery that a holder of a Note might receive by the time such recovery occurs.
- The Notes are unsecured, and investors do not have a security interest in the corresponding Loan Obligations. Accordingly, the holders of Notes may be treated as general creditors and thus be required to share the proceeds of Loan Obligations with other general creditors of MSI.
- Because the terms of the Notes provide that they will be repaid only out of the proceeds of the corresponding Loan Obligations, investors might not be entitled to share in the other assets of MSI available for distribution to general creditors, even though other general creditors might be entitled to a share of the proceeds of such Loan Obligations.
- If a Borrower has paid MSI on any Loan Obligations before the bankruptcy proceedings are commenced and those funds are held in the clearing account and have not been used by MSI to make payments on the Notes, there can be no assurance that MSI will be able to use such funds to make payments on the Notes.
- If a bankruptcy proceeding commences after the purchase price of Notes has been paid, holders of the Notes may not be able to obtain a return of the purchase price even if the offering proceeds have not yet been used to fund a Project.
- Our ability to transfer servicing obligations to a back-up servicer may be limited and subject to the approval of the bankruptcy court or other presiding authority. The bankruptcy process may delay or prevent the implementation of back-up servicing, which may impair the collection of Loan Obligations to the detriment of the Notes.

***If Mosaic were to enter bankruptcy proceedings, the operation of the Investment Platform and the servicing of the Loans and the Notes would be interrupted.***

We have entered into an agreement with Mosaic pursuant to which Mosaic is serving as our agent for purposes of operating the Investment Platform and servicing the Loans and the Notes, among other things. If Mosaic were to enter bankruptcy proceedings, this agreement would be subject to termination if Mosaic or the bankruptcy trustee determined that such termination was in the best interests of Mosaic's unsecured creditors. In the event this agreement were terminated or Mosaic ceased operations, we would be required to find other ways to service the Loans and the Notes. Such alternatives could result in delays in the disbursement of payments on your Notes or could require us to pay significant fees to another company that we engage to service the Loans and the Notes.

***In a bankruptcy or similar proceeding of Mosaic, there may be uncertainty regarding the rights of a holder of a Note, if any, to access funds in the funding account.***

Mosaic currently maintains the funding account at Wells Fargo Bank “for the benefit of” our investors. This so-called “FBO account” is a pooled account titled in Mosaic’s name “for the benefit of” its investors. We believe that amounts funded by investors into the FBO account are unlikely to be subject to claims of creditors of Mosaic other than the investors for whose benefit the funds are held, since beneficial ownership of those funds rests with the investors. However, Mosaic has legal title to the FBO account and the attendant right to administer the FBO account, each of which would be the property of Mosaic’s bankruptcy estate. As a result, if Mosaic became a debtor in a bankruptcy proceeding, the legal right to administer the funds in the FBO account would vest with the bankruptcy trustee or debtor in possession. In that case, investors may have to seek a bankruptcy court order lifting the automatic stay and permitting them to withdraw their funds. Investors may suffer delays in accessing their funds in the FBO account as a result. Moreover, U.S. bankruptcy courts have broad powers and, if Mosaic has failed to properly segregate or handle investors’ funds, a bankruptcy court could determine that some or all of such funds were beneficially owned by Mosaic and therefore that they became available to the creditors of Mosaic generally.

***When you commit to purchase a Note, you must commit funds toward your purchase up to 90 days prior to the time when your Note is issued.***

Each funding request for a Project remains open for up to 90 days unless the funding request is fully subscribed before the end of such period. Investors’ commitments to purchase Notes are irrevocable. During the period between the time of your purchase commitment and the time when your Note is issued, you will not have access to the funds in your funding account. Because your funds do not earn interest while held in your funding account, the delay in issuance of your Note will have the effect of reducing the effective rate of return on your investment.

***Our management fee is assessed on the overall value of each investor’s account, including cash.***

Our management fee is assessed on the overall value of each investor’s account. Cash held in the investor’s account, whether resulting from a payment on a Note or transferred into the account by the investor in anticipation of making new investments, will be subject to our fee to the same extent as outstanding balances on Notes, except for:

- cash deposited in the account during the past month;
- payments on Notes received during the past month;
- cash in the account totaling less than \$25.00;
- cash committed toward the purchase of any Note that has not yet been issued;
- cash committed toward investment in a solar project financing that has been cancelled during the past month; and
- cash held in the account during any month in which there were no Notes offered on the Investment Platform that were available for purchase by the investor, based on the investor’s state of residence, income, net assets and other applicable qualifications.

A new investor is not charged a management fee until the first investment is made from that investor’s account.

***We reserve the right to increase the management fee.***

We may increase the management fee rate from time to time in response to increased costs or investor demand. Our policy is to apply such increases only to new investors. However, we reserve the right to apply rate increases to existing investors as well. Should we increase the management fee rate that is applicable to existing

investors, such rate increase may apply to any Notes you have previously purchased on the Investment Platform. Unlike cash held in your account, Notes may be difficult or impossible to liquidate, so you may have limited options for avoiding an increased management fee rate should you consider that rate to be unduly burdensome.

***Borrowers are permitted to prepay Loans at any time without penalty. Borrower prepayments will extinguish or limit your ability to earn additional returns on a Note.***

Prepayment by a Borrower occurs when a Borrower decides to pay some or all of the principal amount on the Loan earlier than originally scheduled. With most of the Projects financed on the Investment Platform, the Borrower may prepay all or a portion of the remaining principal amount at any time without penalty. Upon a prepayment of the entire remaining unpaid principal amount of the Loan, you will receive your share of such prepayment, but further interest will not accrue after the date on which the payment is made. If prevailing commercial loan rates decline in relation to the Note's effective interest rate, the Borrower may choose to prepay the Loan with lower-cost funds. If the Borrower prepays a portion of the remaining unpaid principal balance on the Loan, the term for repayment of the Loan will not change, but you will not earn a return on the prepaid portion. In addition, you may not be able to find a similar rate of return on another investment at the time at which the Loan is prepaid. See "The Notes" for more information.

***Purchasers of Notes will not have the protection of a trustee, an indenture or the provisions of the Trust Indenture Act of 1939.***

Because this offering is being made in reliance on an exemption from registration under Section 3(a)(11) promulgated under the Securities Act, it is not subject to the Trust Indenture Act of 1939. Consequently, purchasers of Notes will not have the protection of an indenture setting forth obligations of MSI for the protection of Note holders or a trustee appointed to represent their interests.

***We rely on third-party banks and on third-party computer hardware and software. If we are unable to continue utilizing these services, our business and ability to service the Loan may be adversely affected.***

Because we are not a bank, we cannot belong to and directly access the Automated Clearing House ("ACH") payment network, and we must rely on an FDIC-insured depository institution to process our transactions, including payments of Loan Obligations and remittances to holders of the Notes. We currently use Wells Fargo Bank and Bridge Bank for these purposes, but may change banks at any time. Under the ACH rules, if we experience a high rate of reversed transactions (known as "chargebacks"), we may be subject to sanctions and potentially disqualified from using the system to process payments. Mosaic also relies on computer hardware purchased and software licensed from third parties to operate its platform. This purchased or licensed hardware and software may be physically located off-site, as is often the case with "cloud services." This purchased or licensed hardware and software may not continue to be available on commercially reasonable terms, or at all. If Mosaic cannot continue to obtain such services elsewhere, or if it cannot transition to another processor quickly, our ability to process payments will suffer and your ability to receive payments on the Notes will be delayed or impaired.

***If we fail to maintain operations, servicing of the Loan and the Notes will be taken over by Mosaic's backup servicer, and you may experience a delay in expected payments on the Notes, and we may be unable to collect and process repayments from Borrowers.***

Mosaic has made arrangements for backup servicing through Portfolio Financial Servicing Company ("PFSC"). If the Investment Platform was to fail or Mosaic became insolvent, it would attempt to transfer its loan servicing obligations to PFSC. Transferring these servicing obligations to PFSC may result in delays in the processing and recovery of information with respect to amounts owed on Loans or, if the Investment Platform becomes inoperable, may prevent us from servicing the Loans and making payments on the Notes.

***The Notes will not be listed on any securities exchange, and no liquid market for the Notes is expected to develop.***

The Notes will not be listed on any securities exchange or interdealer quotation system. There is no trading market for the Notes, and we do not expect that such a trading market will develop in the foreseeable future, nor do

we intend to offer any features on our platform to facilitate or accommodate such trading. Although the Notes by their terms are prepayable at any time without penalty, there is no obligation on our part to repurchase or otherwise prepay any Notes at the election of an investor. Therefore, any investment in the Notes will be highly illiquid, and investors in the Notes may not be able to sell or otherwise dispose of their Notes in the open market. Accordingly, you should be prepared to hold the Notes you purchase until they mature.

***The U.S. federal income tax consequences of an investment in the Notes are uncertain.***

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. However, although the matter is not free from doubt, we intend to treat the Notes as our indebtedness for U.S. federal income tax purposes. As a result of such treatment, the Notes will have original issue discount, or OID, for U.S. federal income tax purposes because payments on the Notes are dependent on payments on the corresponding Loan Obligations. Further, a holder of a Note will be required to include the OID in income as ordinary interest income for U.S. federal income tax purposes as it accrues (which may be in advance of corresponding installment payments on the Note), regardless of such holder's regular method of accounting. This characterization is not binding on the IRS, and the IRS may take contrary positions. Any differing treatment of the Notes could significantly affect the amount, timing and character of income, gain or loss in respect of an investment in the Notes. Accordingly, all prospective purchasers of the Notes are advised to consult their own tax advisors regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase and ownership of the Notes (including any possible differing treatments of the Notes).

***The Notes could be treated as contingent payment debt instruments for U.S. federal income tax purposes.***

The Notes could be subject to Treasury regulations under which they will be treated as contingent payment debt instruments for U.S. federal income tax purposes. Should this occur, you may recognize interest income on the Notes significantly in excess of the effective interest payments received thereon. Also, under these Treasury regulations, a U.S. holder generally will recognize ordinary income, rather than capital gain, upon a sale, exchange, conversion, repurchase or redemption of a Note.

***If the security of our investors' confidential information stored in Mosaic's systems is breached or otherwise subjected to unauthorized access, your secure information may be stolen.***

The Investment Platform stores investors' bank information and other personally-identifiable sensitive data. Any accidental or willful security breach or other unauthorized access could cause your secure information to be stolen and used for criminal purposes. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, Mosaic and its third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause our investors and solar power developers to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, would harm our reputation, and we could lose investors.

***Any significant disruption in service on Mosaic's website or in its computer systems could reduce the attractiveness of the Investment Platform and result in a loss of users.***

If a catastrophic event resulted in a platform outage and physical data loss, Mosaic's ability to perform its servicing obligations would be materially and adversely affected. The satisfactory performance, reliability, and availability of Mosaic's technology and its underlying hosting services infrastructure are critical to Mosaic's and MSI's operations, level of customer service, reputation and ability to attract new users and retain existing users. Mosaic's hosting services infrastructure is provided by a third party hosting provider (the "Hosting Provider"). Mosaic also maintains a backup system at a separate location that is owned and operated by a third party. The Hosting Provider does not guarantee that users' access to Mosaic's website will be uninterrupted, error-free or secure. Mosaic's operations depend on the Hosting Provider's ability to protect its and Mosaic's systems in its facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality,

temperature, humidity and other environmental concerns, computer viruses or other attempts to harm our systems, criminal acts and similar events. If Mosaic's arrangement with the Hosting Provider is terminated, or there is a lapse of service or damage to its facilities, Mosaic could experience interruptions in its service as well as delays and additional expense in arranging new facilities. Any interruptions or delays in Mosaic's service, whether as a result of an error by the Hosting Provider or other third-party error, Mosaic's own error, natural disasters or security breaches, whether accidental or willful, could harm our ability to service the Loan or maintain accurate accounts, and could harm Mosaic's relationships with its users and Mosaic's and MSI's reputations. Additionally, in the event of damage or interruption, Mosaic's insurance policies may not adequately compensate Mosaic or MSI for any losses that we may incur. Mosaic's disaster recovery plan has not been tested under actual disaster conditions, and it may not have sufficient capacity to recover all data and services in the event of an outage at a facility operated by the Hosting Provider. These factors could prevent us from processing or posting payments on the Loan or the Notes, damage Mosaic's brand and reputation, divert its employees' attention, and cause users to abandon the Investment Platform.

***Events beyond our control may damage Mosaic's or MSI's ability to maintain adequate records, maintain the Investment Platform or perform our servicing obligations.***

If a catastrophic event resulted in a platform outage and physical data loss, our ability to perform our servicing obligations would be materially and adversely affected. Such events could include, but are not limited to, fires, earthquakes, terrorist attacks, natural disasters, computer viruses and telecommunications failures. Mosaic stores back-up records in offsite facilities located in third-party, off-site locations. If Mosaic's electronic data storage and back-up storage system are affected by such events, we cannot guarantee that you would be able to recoup your investment in the Notes.

***Investors will have no control over MSI or Mosaic and will not be able to influence MSI or Mosaic corporate matters.***

The Notes afford purchasers no equity interest in MSI or Mosaic, nor do they give purchasers the ability to vote on or influence our corporate decisions. As a result, Mosaic's stockholders will continue to exercise 100% voting control over all of its corporate matters, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of Mosaic or its assets, and Mosaic, as sole owner of MSI, will continue to exercise similar control over MSI's corporate matters.

***The Notes will not restrict our ability to incur additional indebtedness.***

If we incur additional debt after the Notes are issued, it may adversely affect our creditworthiness generally, and could result in the financial distress, insolvency, or bankruptcy of MSI. As discussed above, the financial distress, insolvency or bankruptcy of MSI could impair your ability to receive the payments you expect to receive on your Notes.

***Mosaic's Investor Agreement limits your rights in some important respects.***

When you sign up as an investor on the Investment Platform, you are required to enter into Mosaic's standard Investor Agreement, which sets forth your principal rights and obligations as an investor. To protect Mosaic and MSI from having to respond to multiple claims by investors in the event of an alleged breach or default with respect to a series of Notes, the Investor Agreement restricts investors' rights to pursue remedies individually in connection with such breach or default, other than claims alleging violations of federal securities laws by Mosaic or any of its officers or directors. Except in limited circumstances, such remedies may only be pursued by a representative designated by the holders of a majority-in-interest of such Notes.

In addition, under the Investor Agreement, MSI may require that any claims against it, other than claims alleging violations of federal securities laws by MSI or any of its officers or directors, be resolved through binding arbitration rather than in the courts. The arbitration process may be less favorable to investors than court proceedings and may limit your right to engage in discovery proceedings or to appeal an adverse decision.

***“Events of Default” under the Note are limited to narrow circumstances.***

Under the Notes, MSI’s bankruptcy or a similar event related to MSI’s insolvency is deemed to be an Event of Default, upon which the entire outstanding principal balance of the Notes and all accrued and unpaid interest thereon will become immediately due and payable. In addition, MSI’s failure to make a payment under the Notes within 60 days after such payment is due is also treated as an Event of Default, but such occurrence does not result in the entire principal balance of the Notes becoming due and payable. Other acts or omissions by MSI or Mosaic, that may represent breaches of contract, including Mosaic’s failure to act in good faith in collecting Loan Obligations as required by the Investor Agreement, do not represent Events of Default under the Notes and do not result in the entire principal balance becoming due and payable.

***We are not subject to the banking regulations of any state or federal regulatory agency.***

We are not subject to the periodic examinations to which commercial banks and other thrift institutions are subject. Consequently, our financing decisions and our decisions regarding establishing loan loss reserves are not subject to period review by any governmental agency. Moreover, we are not subject to regulatory oversight relating to our capital, asset quality, management or compliance with laws.

***Volatility in the business environment for providers of products and services related to solar power could adversely affect our ability to make payments on our Notes.***

Our business is dependent on products and services provided by wide array of third party developers, equipment suppliers, installers and service providers. In recent years, the business environment relating to solar power generation has been highly volatile and has been adversely affected by changes in government funding, tax incentives and foreign competition. Moreover, falling prices for natural gas, which is perceived as a “clean” alternative to other fossil fuels, may reduce demand for sources of renewable energy such as solar power. As a result, many companies doing business in the solar power industry have encountered significant financial difficulties or been forced to discontinue operations altogether. In the event such difficulties affect a company that is delivering important products or services to a Project Mosaic has financed, the completion of the project or its ongoing operations could be jeopardized, which could result in a default in payments on the series of Notes related to that Project.

***Risks to MSI’s or Mosaic’s business could have an adverse impact on their ability to service Loans or cause its business to fail altogether.***

MSI and Mosaic face risks and uncertainties that affect their overall business operations. Any curtailment of their activities or failure of our business would result in a disruption in our ability to service Loans, which could cause interruptions in the repayment of the Notes or, in the event MSI or Mosaic enters into bankruptcy proceedings, could result in uncertainties regarding your rights to repayment under the Notes. See “If we were to become subject to a bankruptcy or similar proceeding, the rights of the holders of the Notes could be uncertain, and the recovery, if any, of a holder on a Note may be substantially delayed and substantially less than the amounts due and to become due on the Note” and “In a bankruptcy or similar proceeding of Mosaic, there may be uncertainty regarding the rights of a holder of a Note, if any, to access funds in the funding account.” Risks and uncertainties that may affect MSI’s or Mosaic’s financial condition and results of operations include the following:

- MSI and Mosaic have a limited operating histories, and MSI has no previous experience with holding or servicing Loans or issuing Notes.
- Mosaic has incurred net losses in the past and expects to incur net losses in the future. Its net loss for the year ended December 31, 2012 was approximately \$2.1 million. If Mosaic fail to become profitable in the future, that could impair the operations of its platform by limiting its access to working capital to operate the platform, and could ultimately result in its insolvency or bankruptcy.
- At this early stage in its development, Mosaic has funded substantially all of its operations with proceeds from private financings from individual investors and venture capital firms. To continue the

development of its platform, Mosaic will require substantial additional funds. Additional funding may not be available on favorable terms, or at all. If Mosaic is unable to obtain additional funds, it may be forced to reduce or terminate its operations.

- The commercial lending market for asset-backed lending in general and lending to solar projects in particular is competitive and rapidly changing. MSI's and Mosaic's principal competitors include major banking institutions and other energy finance companies. If Mosaic's platform is successful, competitors with significantly greater resources, greater brand recognition, more extensive business relationships and longer operating histories than MSI and Mosaic could enter the market and begin competing with us. Competition could result in reduced volumes, reduced fees or the failure of our lending platform to achieve or maintain more widespread market acceptance.
- To succeed, Mosaic must increase transaction volumes on its platform by financing a large number of solar projects and attracting increasing numbers of investors to a novel and unfamiliar online investment platform. If Mosaic is not able to attract qualified solar projects and sufficient investor purchase commitments, it will not be able to increase its transaction volumes.
- Mosaic's future depends, in part, on its ability to attract and retain key personnel. Competition for highly skilled technical and financial personnel is extremely intense. Mosaic may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. The loss of key personnel and the process to replace any of its key personnel would involve significant time and expense, may significantly harm the quality of Mosaic's service and may significantly delay or prevent the achievement of its business objectives.

***At present, the Investment Platform offers investors limited ability to diversify their investments in the Projects Mosaic finances, which increases the risk that an investor may lose his or her entire investment.***

During the early stages of development of the Investment Platform, there are few if any series of Notes available for purchase at any given time. Until such time as Mosaic and MSI are able to offer Notes in multiple series corresponding to different Projects, investors will not have the opportunity to invest in a diversified portfolio of Notes. If you invest all of your funds in a single Project, your investment will involve greater risk than if you spread your investment among several Projects. Comparing a \$500 investment in a single Note with an investment of \$100 in each of five Notes of different series, other things being equal, the probability of a default on the \$500 Note is far greater than the probability that all five of the \$100 Notes will go into default. Thus, if you concentrate your investment in a single series of Notes, you significantly increase the risk that you will lose your entire investment.

### **Risks Related to Compliance and Regulation**

***If Mosaic or MSI are required to register under the Investment Company Act or become subject to the SEC's regulations governing broker-dealers, their ability to conduct their businesses could be materially and adversely affected.***

The SEC heavily regulates the manner in which "investment companies" and "broker-dealers" are permitted to conduct their business activities. Mosaic and MSI believe they have conducted their businesses in a manner that does not result in them being characterized as investment companies or broker-dealers, as they do not believe that they engage in any of the activities described under Section 3(a)(1) of the Investment Company Act of 1940 or any similar provisions under state law, or in the business of (i) effecting transactions in securities for the account of others as described under Section 3(a)(4)(A) of the Securities Exchange Act of 1934 (the "Exchange Act") or any similar provisions under state law or (ii) buying and selling securities for our own account, through a broker or otherwise as described under Section 3(a)(5)(A) of the Exchange Act or any similar provisions under state law. Mosaic and MSI intend to continue to conduct their business in such manner. If, however, either of them is deemed to be an investment company or a broker-dealer, it may be required to institute burdensome compliance requirements and its activities may be restricted, which would affect its business to a material degree.

***Increased regulatory focus could result in additional burdens on our business.***

The financial industry is becoming more highly regulated. There has been, and may continue to be, a related increase in regulatory investigations of the trading and other investment activities of alternative investment funds. Such investigations may impose additional expenses on us, may require the attention of senior management and may result in fines if we are deemed to have violated any regulations.

***As Internet commerce develops, federal and state governments may adopt new laws to regulate Internet commerce, which may negatively affect our business.***

As Internet commerce continues to evolve, increasing regulation by federal and state governments becomes more likely. Our business could be negatively affected by the application of existing laws and regulations or the enactment of new laws applicable to lending. The cost to comply with such laws or regulations could be significant and would increase our operating expenses, and we may be required to pass along those costs to our investors in the form of increased fees. In addition, federal and state governmental or regulatory agencies may decide to impose taxes on services provided over the Internet. These taxes could discourage the use of the Internet as a means of commercial financing, which would adversely affect the viability of our platform.

***Mosaic's business depends on a regulatory environment with favorable incentives for solar. Any policy changes that reduce available incentives for solar projects may affect its ability to finance such projects.***

The economic viability of the solar projects we are financing is dependent upon federal, state, local and utility-based incentive programs. Federal programs include the investment tax credit ("ITC"), which functions as a 30 percent uncapped tax credit for residential solar systems under Section 25D of the Internal Revenue Code of 1986 (the "Internal Revenue Code") and commercial solar systems under Section 48 of the Internal Revenue Code. The ITC is in effect through December 31, 2016.

The Section 1603 program, created in 2009, allowed solar and other renewable energy developers to receive a direct federal grant in lieu of the ITC. The program, originally approved through the end of 2010, was extended for an additional year, and expired on December 31, 2011. A solar project may still be eligible for a Section 1603 grant if the developer has commenced construction by December 31, 2011, or if the developer has satisfied a "safe harbor" requirement by incurring 5% of the total project costs by the December 31, 2011 deadline. After the grant has been issued, it may be recaptured by the government if, within five years of the date the solar project is placed in service, any interest in the solar project or company is transferred to certain prohibited persons, the equipment ceases to be specified energy property (consisting of tangible property for which depreciation or amortization is allowable or the equipment is taken out of service (other than due to an "act of God")). Specified energy property includes only tangible property (not including a building or its structural components) for which depreciation, or amortization in lieu of depreciation, is allowable. If there are any changes in the solar project such that it is no longer defined as specified energy property, or ownership is transferred to another entity other than the SPE, the government may seek to recapture the value of the Section 1603 grant and potentially affect the SPE's ability to pay its Loan Obligations.

Solar projects also qualify for various depreciation provisions under the Internal Revenue Code. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 includes provisions that allow companies to elect a 100% depreciation of eligible property through 2011 and a 50 percent bonus depreciation through 2012. With 100% depreciation, companies owning new qualified solar projects could depreciate 100% of the equipment placed in service from September 8, 2010 through December 31, 2011. For companies that place equipment in service after 2011, the law contains a 50% bonus depreciation provision that companies can elect for qualifying property through December 31, 2012. This provision was recently extended to December 31, 2013. Failure of the federal government to extend these policies beyond their expiration dates may affect the economic viability of solar projects, reducing the pool of potential developers financing solar projects through Mosaic's platform.

***The price of solar equipment is determined in part by global supply and demand. Any shifts in national trade policy that increase component pricing may affect Mosaic's ability to finance solar projects.***

Recently, the U.S. Department of Commerce has imposed import tariffs on solar panels made in China. Although these tariffs have not had a significant effect on the solar equipment market to date, such tariffs could increase equipment prices, which would reduce the returns associated with owning solar installations and therefore weaken demand for solar power and for the financing of solar projects, which would likely have a material adverse effect on Mosaic's and MSI's business. Moreover, tariffs could be imposed retroactively, which would increase costs unexpectedly for projects that are underway or have already been built with equipment covered by the tariff.

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Offering Memorandum contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this Offering Memorandum regarding solar projects, solar customers, SPEs, our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- expected rates of return and interest rates;
- the attractiveness of our platform;
- our financial performance;
- regulatory developments; and
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in forward-looking statements, and you should not place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in forward-looking statements. We have included important factors in the cautionary statements included in this Offering Memorandum, particularly in the "Risk Factors" section, that could cause actual results or events to differ materially from forward-looking statements contained in this prospectus. Forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this Offering Memorandum completely and with the understanding that actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### **PLAN OF DISTRIBUTION**

We will offer the Notes for purchase on the Investment Platform at 100% of their principal amount. The Notes will be offered only by MSI through the Mosaic website, and there will be no underwriters or underwriting discounts. Each offering will remain open for 90 days unless the offering becomes fully-subscribed before the end of the 90-day offering period or unless we otherwise decide to end the offering period early. If the offering becomes fully subscribed prior to the end of the offering period, the Notes will be issued on the first day of the next payment period set forth on the payment schedule included in the description of the offering in Appendix A, Appendix B or the applicable Project Supplement, as the case may be (the "Payment Schedule"). If we have not received

commitments for the purchase of the full amount of the Notes as of the end of the offering period, we may list the remaining Notes on the Investment Platform at a later time.

Each Loan will be funded out of Mosaic's or MSI's working capital prior to the offering period, and the Borrower's payment obligations under the Loan will commence the following month, regardless of whether the corresponding Notes have been issued. The Payment Schedule relating to the corresponding series of Notes is based on the assumption that the Notes will be issued before the Borrower makes its first payment on the Loan. In the event the Borrower makes a payment on the Loan before the Notes are issued, the corresponding payment on the Notes will be eliminated from the payment schedule, and the aggregate amount of Notes offered as part of that series will be reduced by an amount equal to the principal repaid by the Borrower.

We will amend this Offering Memorandum or the applicable Project Supplement, as the case may be, in the event any of the information it contains becomes false or misleading in light of existing circumstances. In the event such an amendment becomes necessary, Mosaic will notify via email each investor who has made a commitment to purchase a Note and post a notice on the web page where the Notes are listed, in each case advising investors that a material amendment to the Offering Memorandum or Project Supplement is pending. Once the amended Offering Memorandum or Project Supplement has been posted on Mosaic's website, we will give each investor five days to withdraw his or her purchase commitment and will extend the offering period if necessary such that it remains open for at least 10 business days following the posting of the amended Offering Memorandum or Project Supplement.

#### **USE OF PROCEEDS**

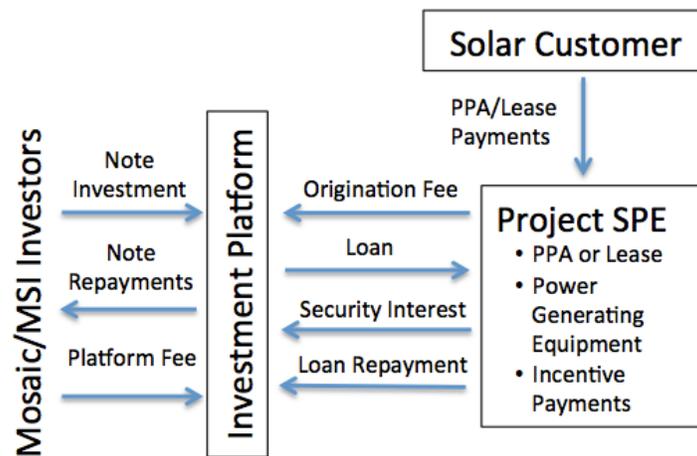
The proceeds of this offering will be used to purchase the Loans from Mosaic that correspond to the various series of Notes offered pursuant to this Offering Memorandum or to repay funds we have borrowed in order to fund Loans we have originated directly. When we use proceeds to purchase Loans from Mosaic, it, in turn, plans to use such proceeds to fund the origination of additional Loans and for working capital purposes, including repayment of funds it has borrowed to fund Loans it has originated. At present, Mosaic and MSI plan to fund future Loans out of their working capital. In addition to the proceeds of this offering, Mosaic's and MSI's expected sources of working capital will consist primarily of (i) the proceeds of similar offerings, (ii) revenues from operations, (iii) the proceeds of private placements of debt or equity securities, and (iv) funds borrowed from banks and other lenders. Mosaic and MSI are continuing to evaluate potential solar projects to finance but have not identified any specific projects for which the proceeds of this offering may be used except as discussed in Appendixes A and B.

## ABOUT MOSAIC'S BUSINESS

### Overview

Mosaic operates an online investment platform (the "Investment Platform") through which investors may participate in the financing of solar projects through the purchase of Notes offered by Mosaic and its subsidiaries. In a typical solar project, the power generating equipment is leased to the solar customer or the power generated by the equipment is sold to the solar customer pursuant to a lease or power purchase agreement ("PPA"). The owner of the project (the "Owner") holds the project's assets (including the right to receive payments under the lease or PPA) through a special purpose entity, or "SPE." When Mosaic finances a project, it first makes a loan (a "Loan") to the SPE (sometimes referred to herein as the "Borrower") out of its working capital. Subsequently, Mosaic offers Notes whose payment is dependent on Mosaic's receipt of payments on the Loan, or Mosaic may assign the Loan to MSI, which, in turn, offers Notes whose payment is dependent on MSI's receipt of payments on the Loan. The SPE's loan payment obligations ("Loan Obligations") are secured by the assets owned by the SPE in connection with the project, including the SPE's rights to receive payments under the lease or PPA.

The following diagram shows the structure of a typical solar finance arrangement:



At present, the Investment Platform operates primarily online. Registration, processing and payment systems are automated and electronic. Mosaic encourages the use of electronic payments as the preferred means to disburse funds to an SPE and to remit cash payments on outstanding Loan Obligations. Mosaic and MSI are not banks and have no physical branches, and they do not take deposits or pay interest on investors' funds other than in connection with the Notes they issue. Mosaic's website provides detailed information about its platform, including its fees, the full text of our agreements with investors, and help pages. In addition to the customer support materials available on Mosaic's website, it makes additional customer support available to investors by email and phone through its customer support team in Oakland, California.

We expect to earn revenue primarily from the monthly management fee charged to investors based on the total value of unpaid principal of Notes in each investor's account and any cash in the account (subject to certain exceptions). In addition, in some circumstances we may charge fees to the SPE for (i) late payment, (ii) unsuccessful payment due to factors such as insufficient funds or (iii) processing of payments made by check. In addition, in the event we are required to take collection action with respect to unpaid Loan Obligations, we may deduct a collection fee from any amounts that are successfully collected before those proceeds are distributed to Note holders. See "How the Investment Platform Operates—Servicing and Collection of Loans."

## **Background**

### ***U.S. Photovoltaic Industry***

Demand for photovoltaic (PV) power in the U.S. has grown significantly over the last few years, and is projected by the Solar Energy Industries Association (SEIA) to continue growing rapidly. According to SEIA, from 2005 to 2011, the U.S. PV market grew at an average annual rate of 64%, and SEIA has projected a compound annual growth rate of 30% between 2011 and 2015. According to market segment data from GTM Research, installed capacity of utility-scale PV projects more than tripled from 70 MW in 2009 to 242 MW at the end of 2010. As of the third quarter of 2011, utility-scale projects, which are projects of generally greater than 3MW in size with an electric utility energy purchaser, represented almost one-third of all installed PV in the U.S. Net-metered non-residential and residential projects have also grown significantly over the past two years, growing at an average annual rate of 86% and 44%, respectively, from 2009 to 2011. Net-metered non-residential projects include those located at customer facilities, such as municipal buildings, schools, hospitals and commercial enterprises. Net-metering laws encourage the adoption of solar power by compensating solar customers for excess power that is transmitted into the grid, in the form of a credit on future electricity bills.

For most solar projects, government subsidies are a critical component of both initial financing and investor returns. In the U.S., the most important government subsidy has been the investment tax credit, which entitles a solar equipment owner to a tax credit equal to 30% of qualified solar installation costs. There are some restrictions as to how the tax credit can be applied—for instance, for individuals tax credits may only be used to offset passive income (consisting of income from rental activity or a business in which the taxpayer does not materially participate)—whereas entities are permitted to offset all taxable income. To take full advantage of the tax credit, a solar investor must have tax liability that is at least equal to the credit amount, which makes solar projects only attractive to investors that are generating the right type of taxable income. Solar investors can capture the tax credit by acquiring direct ownership interests in solar projects or by investing in a fund that owns solar projects, referred to as a “tax equity fund.”

In 2009, through the adoption of Section 1603 of the American Reinvestment and Recovery Act, Congress created a program under which the owner of a solar installation could receive a 30% cash grant in lieu of an investment tax credit. The Section 1603 incentive provided a much-needed stimulus to the solar industry, reducing the market’s dependence on investors with tax liabilities that could be offset by the investment tax credit. Although the Section 1603 program expired on December 31, 2011, a project may still be eligible for a Section 1603 grant if the developer either commenced construction by December 31, 2011 or took advantage of a “safe harbor” under the program by incurring 5% of the total eligible project costs by the December 31, 2011 deadline. Many developers have safe-harbored significant amounts of project assets to preserve the incentives associated with the Section 1603 program well into 2013.

The economics of solar projects are also affected by the prices of PV panels and related electrical components, which have fallen dramatically over the last few years. According to industry research firm Clean Edge, the global average price of installed solar PV systems has dropped from \$7.20 per watt in 2007 to \$3.47 per watt in 2011. Prices continue to fall, though this may change due to changes in U.S. trade policy towards panels imported from China. On March 20, 2012, the U.S. Department of Commerce imposed import tariffs on solar panels made in China, ranging from 2.9% to 4.74%. In November 2012, additional tariffs were imposed by the Commerce Department of between 24% and 36% on most solar panels imported from China.

### ***Solar Power Finance***

The solar finance industry is in the early stages of development. The combination of falling component prices and favorable incentive programs has stimulated growth of solar power in the U.S., but the supply of debt and equity financing for project development has been slow to catch up. GTM Research has estimated that, due to expected U.S. solar industry growth, there will be over \$50 billion of financing needed for PV projects over the next five years.

Solar projects at residential locations or small or medium-size businesses are generally owned by an SPE (typically a limited liability company), which holds title to all of a project’s assets (such as solar panels, inverters

and racking systems), is entitled to a project's available federal and state incentives, and is party to the contractual rights and obligations arising out of project activities including the lease or PPA with the solar customer.

Solar projects, like other energy generating assets, are capital-intensive and require up-front financing to pay for construction and long-term ownership. Solar installations are considered long-term assets and are usually financed with a combination of government incentives and debt and equity capital. A few of the most common forms of debt financing for solar projects include:

- construction finance, used to make payments to an engineering, procurement and construction builder of a solar power system;
- term debt, which is provided to the SPE to finance the long term ownership of the solar power system, and is paid to the SPE upon interconnection of the project; and
- bridge loans, which are typically used to “bridge” the financing of a project until an SPE receives an Incentive Payment.

Because the up-front costs of solar power systems are high, instead of purchasing a system, many solar power customers prefer to lease their systems or enter into a PPA under which they purchase the system's electricity output from the SPE. Such leases or PPAs generate an ongoing payment stream from which lenders or investors who have financed the initial installation can obtain a return on their investment.

Some state and local governments and many foreign governments promote solar power generation through feed-in tariff programs. A feed-in tariff permits a private party to generate solar power (or other forms of renewable energy) for sale directly to the local electric utility at a predetermined price. This price is typically set at a level that ensures that the seller can earn a profit from the generation of power. The solar developer might install a rooftop PV system in the same fashion as it would under a more traditional lease or PPA arrangement, but enters into a PPA directly with the utility, while paying rent to the building owner for the right to maintain a the system on the building's roof.

Sources of debt and equity for solar project finance have historically been volatile, influenced by changes in the economy, capital markets and government incentives for renewable energy. Between 2008 and 2010, solar finance was considerably constrained by the global economic recession, when sources of financing tied to investment tax credits were severely constrained and bank lending decreased dramatically. However, conditions have become more favorable for solar finance as the global economy has improved, with banks, private equity and other investors increasing their investments in the sector.

Debt financing for solar projects is provided by a limited number of commercial banks and specialty lenders. Because of relatively high transaction costs, banks generally focus on lending to large projects or portfolios of projects, where the total loan amount is over \$10 million. Although certain banks and specialty lenders will lend to projects or portfolios in smaller amounts, demand for such financing is significantly greater than supply, and the resulting lending rates are often too high for most projects to utilize. Additionally, because the solar industry is relatively new in the U.S., few financial institutions have invested the resources to build a solar financing practice. Much of the financing in the market comes from so-called “specialty lenders”—typically small funds or high net worth individuals who specialize in solar investment. Tax equity financing has served an important role in solar project finance, providing up to 55% of project financing when coupled with other tax benefits such as accelerated depreciation. However, tax equity financing is directly dependent upon profitability and institutions that choose to use it to manage their tax liability, hence making it a less stable source of financing. According to GTM Research, prior to the recent global economic recession, approximately \$6.1 billion of tax equity was available for investments in renewable energy. This fell to \$1.2 billion in 2009, but rose again to \$3.7 billion in 2010 as institutions improved their profitability.

## **Our Financing Model**

Our financing model replaces traditional sources of financing for solar projects with the aggregation of capital from small investors using the Internet. We believe that the advantages of this method of financing solar energy include:

- reduced project origination and financing request costs;
- lower interest rates for financing of solar projects;
- attractive returns for investors;
- the opportunity to promote renewable energy by investing in solar projects; and
- growing acceptance of the Internet as an efficient and convenient forum for investment transactions.

## ***The Solar Project Development Process***

A solar project's timeline can be divided into the following stages: Pre-Construction, Construction and Post-Interconnection.

### ***Pre-Construction***

During the Pre-Construction phase, the developer must commit working capital to sales and design costs. Additionally, the developer funds the process of:

- identifying a proper building site with a creditworthy solar customer;
- researching applicable state and federal incentive programs and understanding which incentives the project is qualified for;
- designing a system that generates enough energy (and therefore, revenue) to produce a return on investment;
- setting up the SPE; and
- securing vendor financing for the installation's components, such as PV panels, inverters and racking hardware.

### ***Construction***

Typically, the solar project developer will utilize a third-party engineering, procurement and construction service ("EPC") to install the system. During the Construction phase, the developer needs capital to pay the EPC, which typically comes from a construction loan or equity investments. Although the construction timeline may vary depending upon the system size and weather conditions, construction of a 200kW system typically takes one to two months.

### ***Post-Interconnection***

Following completion of construction, a utility company inspection will generally occur within one month, after which, provided the system passes inspection and the application documentation is approved, the solar project receives permission to operate and connect to the power grid. This step is typically referred to as "interconnection." At this point the solar power system begins commercial operation and the solar customer begins making payments to

the SPE under the lease or PPA. Alternatively, under a feed-in tariff program offered by the local electric utility, the SPE will lease the rooftop space from the building owner and enter into a PPA directly with the utility.

### ***Financing of Solar Projects***

Initially, we intend to offer term financing, in which we make a loan to an SPE having a repayment term of one to ten years, usually at a fixed interest rate. The proceeds of this loan may be applied toward the repayment of the project's construction loan or toward the refinancing of other term debt. The resulting Loan Obligations are secured by the assets owned by the SPE in connection with the solar project. Cash generated from the project's Incentive Payments and lease or PPA revenues are used to pay off the Loan Obligations, which are typically senior to the SPE's other financing obligations.

### **How the Investment Platform Operates**

#### ***Investor Account***

To begin investing on the Investment Platform, an investor must first register on Mosaic's website and then create an investor account. Individual investors must be at least 18 years of age and a U.S. resident. When registering, the investor must agree to Mosaic's platform rules and terms of use, including consent to receipt of disclosures electronically, and must agree to a tax withholding statement. The investor must also agree to Mosaic's investor agreement, which governs all sales of our Notes to investors.

To create an account, an investor who is an individual must provide his or her name, address, email address and social security number, and either a state driver's license or state identification card number. An entity investor must provide the name of the entity, its address, the name and email address of a contact person, and the entity's taxpayer identification number. Before an investor may begin investing on the Investment Platform, the investor must agree to Mosaic's rules, limitations, processes and procedures for originating, servicing and collecting Loans and for purchasing Notes through the Investment Platform.

In addition, to purchase Notes, the investor must reside in a state where the Notes are registered or qualified and must satisfy the applicable investor suitability requirements. See "Investor Suitability Requirements." Each investor is required, when creating an account and annually thereafter, to verify whether his or her income and net assets exceed the levels relating to the suitability requirements.

#### ***Project Funding and Treatment of Investor Balances***

Prior to purchasing Notes, investors must transfer funds to an account maintained on Mosaic's platform, which we refer to as a "funding account." Investors place funds in their funding account by authorizing an electronic transfer using the ACH network from the investor's designated and verified bank account to the account Mosaic currently maintains at Wells Fargo Bank. This account is a pooled account titled in Mosaic's name "for the benefit of" Mosaic investors, known as the "FBO account," and is a non-interest bearing demand deposit account. All funds to be applied to an investor's Note purchases are held in this FBO account, and all Note payments payable to the investor are deposited in the FBO account.

Investors have no direct relationship with Wells Fargo in connection with the FBO account. Mosaic is the owner of the FBO account. However, Mosaic disclaims any economic interest in the assets in the FBO account and also provides that each investor disclaims any right, title or interest in the assets of any other investor in the FBO account. No Mosaic or MSI funds are ever commingled with the assets of investors in the FBO account.

Under the FBO account, Mosaic maintains sub-accounts for each of the investors on its platform to track and report funds committed by investors to purchase Notes, as well as payments received from SPEs. These record-keeping sub-accounts are purely administrative and reflect balances and transactions concerning the funds in the FBO account. Mosaic is serving as MSI's agent for purposes of handling SPE payments to MSI and payments on Notes issued by MSI.

Heavy transaction volume into and out of the FBO account could increase the risk of bookkeeping and recordkeeping errors. Because Mosaic's ACH payments flow through a large financial institution, there is an auditable trail of money movement, and in the case of a bookkeeping error, Mosaic believes it will be able to recreate transaction histories in order to correct the error. Mosaic maintains a sub-ledger with respect to the FBO account that records all movements of funds into and out of that account, which Mosaic periodically reconciles with its bank transaction history; initially, Mosaic will perform reconciliation daily by comparing the aggregate debits and credits in the FBO account with the aggregate debits and credits on its sub-ledger. Mosaic performs nightly backups of its entire system, including the sub-ledger.

The FBO account is FDIC-insured on a "pass through" basis to the individual investors, subject to applicable limits. This means that each investor's balance is protected by FDIC insurance up to the limits established by the FDIC. Other funds the investor has on deposit with Wells Fargo, for example, may count against any applicable FDIC insurance limits.

Funds of an investor may stay in the FBO account indefinitely. Such funds may include:

- funds in the investor's sub-account never committed to purchase Notes;
- funds committed to the purchase of Notes for which the underlying financing has not closed; or
- payments received from Mosaic or MSI related to Notes previously purchased.

Upon request, Mosaic will transfer investor funds in the FBO account to an investor's verified bank account by ACH transfer, provided such funds are not already committed to the future purchase of Notes.

### ***Evaluation and Pricing of Financing Opportunities***

The financing of each Project generally commences with a project developer or owner requesting financing from Mosaic. The amount financed generally ranges from \$50,000 to \$5,000,000, and the term of the indebtedness generally ranges from one to ten years. Each Project is financed through an SPE that is created for that project only and is not generally permitted to incur other indebtedness or obligations for any other purpose.

The interest rate Mosaic charges is based on negotiations with the Borrower, but the minimum interest rate Mosaic will agree to is based on its assessment of the risk in light of a specific set of underwriting criteria. Mosaic's underwriting criteria are divided into categories relating to repayment risk associated with the Borrower, technical risk associated with the project equipment, value of the project's assets as collateral, and regulatory and environmental risks, each of which is assigned a weighted score. If the overall score exceeds a certain level, Mosaic will decline to finance the project.

Mosaic's underwriting criteria are divided into two major categories, primary criteria and secondary criteria. These categories, in turn, are divided into subcategories based on the type of risk involved. Each subcategory is assigned a given number of points based on the risk associated with the project. Subcategories of primary criteria are given twice the weight of subcategories of secondary criteria.

***Primary Criteria: lower risk = 2; medium risk = 4 points; higher risk = 6 points;***

#### **Repayment Risk (2-6 points):**

1. Solar customer credit quality – lower-risk solar customers have top credit ratings from established credit rating agencies.
2. Power purchase agreement (PPA) or lease quality – a lower-risk PPA or lease has the following elements:
  - no ability by solar customer to terminate the agreement unless the Borrower is negligent

- no ability for solar customer to curtail power purchases for more than a few days without reimbursing Borrower
  - a fixed rate electricity price with a fixed escalator or a fixed schedule of lease payments – no floating rates
3. Incentive payment risk – lower-risk projects have incentive payments with well-defined contracts between the Borrower and the incentive provider that are fully executed and require the incentive provider to pay the incentive.
  4. Covenants – lower-risk projects do not allow the project to be sold by the Borrower without our consent.
  5. Building vacancy risk (if rooftop) – lower-risk projects have a solar customer using on-site solar power whose remaining real estate lease tenor is longer than their PPA.

**Technical Risk (2-6 points):**

1. Panel quality and efficiency – Lower-risk panels have peer-reviewed third-party technical verification and all major certifications from a third-party assessment organization such as Underwriter Laboratories.
2. Operation and maintenance – Lower-risk projects have a top tier maintenance company whose management team has a solid reputation within the solar industry as well as significant experience in solar maintenance. Lower risk projects have an experienced Owner with a successful track record.
3. Strength and term of manufacturer and construction company warranties and guarantees – Lower risk for this category would have unambiguous wording as to when warranties are applicable, a low-cost and well-understood way to test for deficiencies, and coverage of incidental labor and transportation costs associated with any repair or replacement of Project equipment.
4. Credit quality of manufacturer and construction companies – Lower risk for this category would be for companies to be investment grade, have a strong balance sheet, positive earnings and cash flow, no material lawsuits pending, and a veteran management team.

***Secondary Criteria: higher risk = 3 points; medium risk = 2 points; lower risk = 1 point.***

**Collateral Value (1-3 points):** Lower risk projects would have the following:

1. Ease of system removal and reinstallation
2. Higher system resale values
3. Higher resale market strength.

**Regulatory/Environmental Risk:** Lower risk projects would have the following:

1. Strong and enforceable local and state regulatory frameworks
2. Lower weather variability, force majeure risk, and insurance cost/availability risk

### ***Total Scores and Pricing Outcomes:***

Lower risk project score = 6

Higher risk project score = 18

Score of 6 to 9 = lower risk

Interest rate: prime + 0-3%

Tenor: up to 15 years

Debt service coverage ratio: 1.15x – 1.35x

Score of 10 to 13 = medium risk

Interest rate: prime + 3-6%

Tenor: up to 10 years

Debt service coverage ratio: 1.25x – 1.45x

Score of 14 to 15 = higher risk

Interest rate: prime + 6-9%

Tenor: up to 5 years

Debt service coverage ratio: 1.35x – 2.00x

Score of 16+: decline to finance.

### ***Financing Terms***

Loan Obligations are secured obligations of the Borrower. Loan Obligations are generally secured by a first lien security interest in the assets owned by the Borrower related to the solar project, including the Borrower's rights to receive payments from the solar customer under the lease or PPA. If a Borrower defaults on the Loan before the maturity date, Mosaic will, in its sole discretion, seek to sell the Project or take other actions to recover payment on the Loan Obligations. Any funds Mosaic recovers as a result of such actions prior to maturity of the Notes will be paid to the holders of the Notes pro rata, net of any applicable collection fees.

Our payment obligations under the Notes are unsecured, and investors do not have a security interest in the corresponding Loan Obligations.

Loans may generally be prepaid in whole or in part at any time without prepayment penalty. In the case of a partial prepayment, we automatically reduce the outstanding principal, but the payments relating to Term Financing indebtedness is left unchanged, effectively reducing the term over which the Loan is repaid.

### ***Purchase of Notes***

Notes offered on the Investment Platform are available for sale to investors who (1) reside in states in which the Notes are offered and (2) have funded their funding accounts with sufficient funds to make the desired investment. Once the offering of the Notes commences, the offering will remain open for up to 90 days, during which information relating to the offering and instructions for purchasing Notes will be available on Mosaic's website. The Notes will be issued at the end of the listing period or on such earlier date as the offering is fully subscribed.

An investor may purchase a Note by opening the listing for the Project on Mosaic's website and indicating the amount he or she wishes to invest, subject to the maximum investment amount, if any, imposed by the investor's state of residence. The investor will then be prompted to confirm his or her "order." After such confirmation, the order will represent the investor's binding commitment to purchase the Note, provided the available funds in his or her funding account are sufficient to complete the purchase. From that point on, through the remainder of the listing period, the committed funds may no longer be withdrawn from the funding account or committed to other projects.

Alternatively, the investor may indicate his or her intent to purchase a Note without having sufficient funds in his or her funding account, provided that (i) the commitment will become binding only at such time as the account has sufficient funds, and (ii) before that time, we may cut back the principal that is allocated to the investor in order to meet demand from other investors.

In the event we are required to amend this Offering Memorandum or the applicable Project Supplement, as the case may be (e.g., as a result of material changes to the information contained herein), we will notify each investor who has made a commitment to purchase a Note and post a notice on the web page where the Notes are listed, in each case advising investors that a material amendment to the Offering Memorandum or Project Supplement is pending. Once the amended Offering Memorandum or Project Supplement has been posted on Mosaic's website, we will give each investor five days to withdraw his or her purchase commitment and will extend the offering period such that it remains open for at least 10 business days following the posting of the amended Offering Memorandum or Project Supplement.

Upon issuance of a Note, the principal amount is transferred from the investor's funding account. Notes are issued electronically, in "book entry" form, by means of registration of each investor's ownership in our records.

### ***Servicing and Collection of Loans***

Following the purchase of Notes and the funding of the corresponding Loan, we will begin servicing the Loan. Mosaic will act as our agent for purposes of servicing each Loan. We will coordinate with Mosaic to set up an automated accounting system to track payments received from the Borrower. Mosaic is responsible for billing, payment collection, debt status tracking, and all other tasks required to efficiently service the Loan. Payments by the Borrower are handled by automatic debiting of its bank account by ACH transfer. If the Borrower chooses to pay by check, Mosaic imposes a \$15.00 check processing fee per payment, subject to applicable law. Mosaic provides reports and other investor communications via electronic communication. Mosaic retains 100% of any check processing and other processing fees we receive to cover our costs.

When Mosaic receives a payment on the Loan, it will make an equivalent payment on the Notes on our behalf. Loan payments by the Borrower are transferred to a clearing account in Mosaic name where they remain for up to 10 business days. Thereafter, Mosaic makes payments on the Notes by transferring the appropriate funds to the FBO account and allocating amounts received on specific Loan Obligations to the appropriate investor's sub-account. An investor may transfer uncommitted funds out of the investor's sub-account in the FBO account by ACH transfer to the investor's designated bank account at any time, subject to normal execution times for such transfers (generally two to three business days).

When a Loan is past due and payment has not been received, Mosaic contacts the Borrower on our behalf to request payment. After a 15-day grace period, Mosaic may, in its discretion, assess a late payment fee. The amount of the late payment fee is the greater of 3.00% of the unpaid payment amount or \$150, or such lesser amount as may be provided by applicable law. This fee may be charged only once per late payment. Amounts equal to any late payment fees we receive are paid to holders of the Notes corresponding to the relevant Loan. Mosaic may choose not to assess a late payment fee when a Borrower promises to return a delinquent Loan to current status and fulfills that promise. Mosaic may also work with the Borrower to structure a new payment plan without the consent of any holder of the Notes corresponding to that Loan. Under the terms of the Investor Agreement, Mosaic is required to service and collect Loan Obligations in good faith, consistent with reasonable commercial standards of fair dealing.

Each time a payment request is denied due to insufficient funds in the Borrower's account or for any other reason, Mosaic may assess an unsuccessful payment fee to the Borrower in an amount of \$35.00 per unsuccessful payment, or such lesser amount as may be provided by applicable law. Mosaic retains 100% of this unsuccessful payment fee to cover its costs incurred because of the denial of the payment.

If a Loan becomes more than 30 days overdue, Mosaic identifies the Loan on its website as "Late (31-60 days)," and it refers the Loan to its in-house collections department, which will attempt to bring the Borrower current on its Loan Obligation. If the overdue Loan cannot be resolved in this fashion, then we will exercise our security interest and take possession of the assets of the Project. In order to recover amounts due under the Loan, we

will either take over the operation of the Project and continue making payments on the Notes out of the revenues generated by the Project or sell the Project assets and repay the Notes out of the proceeds of the sale.

Amounts equal to any recoveries MSI receives from the collection process are payable to investors on a pro rata basis, subject to Mosaic's deduction of any applicable fees as described in the table below. Each investor's right to receive principal and interest payments and other amounts in respect of that Note is limited in all cases to the holder's pro rata portion of the amounts received by MSI in connection with the Loan, including, without limitation, all payments or prepayments of principal and interest, subject to fees and charges retained by Mosaic or a third party, as set forth in the table below.

Investors are able to monitor the payment status of a Loan as "current," "Late (15-30 days)," "Late (31-60 days)," "Late (61-90 days)," "Late (91-120 days)" or "Late (over 121 days)," but cannot participate in or otherwise intervene in the collection process.

Mosaic's normal collection process changes in the event of a Borrower's bankruptcy. When Mosaic receives notice of the bankruptcy, as required by law, it ceases all automatic payments on the Loan and defers any other collection activity. The status of the Loan, which the relevant investors may view, switches to "bankruptcy." Mosaic next determines what it believes to be an appropriate approach to the Borrower's bankruptcy, including the filing of a proof of claim and attempts to obtain relief from stay to foreclose on the assets that secure the Loan. We may pursue additional relief beyond the proof of claim, depending upon certain factors including our view of the costs and benefits to us of any proposed action. Notwithstanding our security interest, in the event of the Borrower's bankruptcy, if the Borrower has other creditors, the bankruptcy court may refuse to grant relief from stay to enable us to foreclose on the Borrower's assets. Moreover, if a mortgage lender to the Solar Customer has foreclosed on the Solar Customer's property, we may be unable to gain access to the premises to take possession of the equipment.

Mosaic has executed a backup and successor servicing agreement with Portfolio Financial Servicing Company ("PFSC"). Pursuant to this agreement, PFSC will stand ready to service the Loans and the Notes in the event the Investment Platform fails or Mosaic becomes insolvent.

### ***MSI Fees***

We charge investors a monthly management fee that is based on a percentage of the total value of the unpaid principal of all Notes held by the investor and any cash in the investor's account, other than:

- cash deposited in the account during the past month;
- payments on Notes received during the past month;
- cash in the account totaling less than \$25.00;
- cash committed toward the purchase of any Note that has not yet been issued;
- cash committed toward investment in a solar project financing that has been cancelled during the past month; and
- cash held in the account during any month in which there were no Notes offered on our platform that were available for purchase by the investor, based on the investor's state of residence, income, net assets and other applicable qualifications.

A new investor is not charged a management fee until the first investment is made from that investor's account. Our management fee is currently set at a rate equal to 1.0% per year, or approximately 0.0833% per month. We reserve the right to change our management fee rate at any time, provided that, under our current policy, any new fee rate will apply only to new investors, not existing investors. See "Risk Factors—We reserve the right to increase the management fee."

The following table summarizes the fees that we charge and how these fees affect investors:

| <b>Description of Fee</b>                | <b>Fee Amount</b>   | <b>When Fee Is Charged</b>   | <b>Effect on Investors</b>   |
|--|---|--|--|
| Management fee                           | 0.0833% of the total value of the unpaid principal of all Notes held by the investor and any cash in the investor's account other than cash held in the account prior to the investor's first investment, cash deposited in the account during the past month, payments on Notes received during the past month, cash in the account totaling less than \$25.00, cash committed toward the purchase of any Note that has not yet been issued, and cash committed toward investment in a solar project financing that has been cancelled during the past month | Monthly  | The fee will reduce the rate of return on each investor's account  |
| Loan Obligation late fee                 | Assessed at MSI's discretion; if assessed, the late fee is the greater of 3.00% of the unpaid installment amount, or \$150.00, or such lesser amount as may be permitted by applicable law, and may be charged only once per late payment   | At MSI's discretion, when a Loan Obligation is past due and payment has not been received after a 15-day grace period              | Amounts equal to any late payment fees we receive are paid to holders of the Notes corresponding to the relevant Loan Obligation   |
| Loan Obligation unsuccessful payment fee | \$35.00 per unsuccessful payment, or such lesser amount as may be provided by applicable law  | May be assessed each time a payment request is denied, due to insufficient funds in the Borrower's account or for any other reason | MSI retains 100% of this unsuccessful payment fee to cover its costs incurred because of the denial of the payment   |
| Loan Obligation collection fee           | Only charged after a Loan Obligation becomes 31 days overdue if the collection agency or Mosaic is able to collect an overdue payment; collection fee is up to 35% or, in the event of litigation, the amount of MSI's legal fees and costs, if greater   | At the time of successful collection after a Loan Obligation becomes 31 days overdue   | Collection fees charged by MSI or a third-party collection agency will reduce payments and the effective yield on the related Notes; collection fees will be retained by MSI or the third-party collection agency as additional servicing compensation |
| Check processing fee                     | \$15.00 per check processed for any payments made by check  | At the time a payment by check is processed  | MSI retains 100% of this check processing fee to cover its costs   |

### ***Investor Agreement***

When an investor registers on the Investment Platform, the investor enters into an Investor Agreement with Mosaic that governs the investor's rights and obligations in connection with his or her Note purchases. Under the

agreement, Mosaic provides the investor the opportunity through the Investment Platform to review Projects and participate in the financing of such Projects through the purchase of Notes. Once the investor makes a purchase commitment, that commitment is irrevocable except in limited circumstances, as described above under “Purchase of Notes.”

The agreement limits the investor’s right to collect or attempt to collect from any Borrower or Solar Customer, directly or through any third party, any amount owing under any of the investor’s Notes or on any of the Loan Obligations or lease or PPA payment obligations that correspond to the investor’s Notes.

In the agreement, the investor acknowledges that the Notes are intended to be debt instruments issued by Mosaic or its subsidiary that have original issue discount (“OID”) for U.S. federal income tax purposes and agrees not to take any position inconsistent with that treatment of the Notes for tax, accounting, or other purposes, unless required by law. The investor also acknowledges that the Notes will be subject to the OID rules of the Internal Revenue Code, as described below under “Material U.S. Federal Income Tax Considerations—Taxation of the Notes—Taxation of Payments on the Notes.”

### ***Acknowledgments, Representations and Warranties***

The agreement describes the limitations on payments on the Notes, and the investor acknowledges that, among other things:

- payment on the Notes, if any, depends entirely on the receipt of payments by Mosaic or its subsidiary in respect of the corresponding Loan;
- Mosaic does not warrant or guarantee in any manner that the investor will receive all or any portion of the principal or interest the investor expects to receive on any Note or that the investor will realize any particular or expected rate of return; and
- the amount received on a Note, if any, is specifically restricted to payments made by the issuer equal to the payments made by the Borrower in connection with the corresponding Project.

Under the agreement, the investor represents and warrants to Mosaic that, among other things:

- the investor meets minimum financial suitability standards and maximum investment limits established for the Investor Platform, as then in effect, for residents of the state in which investor resides and agrees to provide Mosaic with any additional documentation as it may require to verify such compliance;
- the investor has complied in all material respects with applicable federal, state and local laws in connection with the investor's execution and performance of the investor’s obligations under the Investor Agreement; and
- the investor has the power and authority to enter into the Investor Agreement.

Under the agreement, Mosaic represents and warrants to the investor that, among other things, it has complied in all material respects with applicable federal, state and local laws in connection with the offer and sale of the Note.

### ***Remedies***

If Mosaic breaches any of its representations and warranties and such breach materially and adversely affects an investor’s interest in a Note, Mosaic agrees to:

- cure the breach, if the breach is susceptible to cure;

- repurchase the Note; or
- indemnify and hold the investor harmless against all losses (including losses resulting from the nonpayment of the Note), damages, expenses, legal fees, costs and judgments resulting from any claim, demand or defense arising as a result of the breach.

Mosaic will determine, in its sole discretion, if a breach is susceptible to cure, whether to cure such breach, repurchase the Note or indemnify the investor with respect to the Note. If Mosaic elects to repurchase a Note, it will pay the investor an amount equal to the outstanding principal balance of the Note and accrued interest as of the date of repurchase.

To protect Mosaic from having to respond to multiple claims by investors in the event of an alleged breach or default with respect to a series of Notes, the Investor Agreement restricts investors' rights to pursue remedies individually in connection with such breach or default, other than claims alleging violations of federal securities laws by Mosaic or any of its officers or directors ("Securities Claims"). Except in limited circumstances, such remedies may only be pursued by a representative designated by the holders of a majority-in-interest of such Notes.

In addition, under the Investor Agreement, Mosaic or MSI may require that any claims against it, other than Securities Claims, be resolved through binding arbitration rather than in the courts. The arbitration process may be less favorable to investors than court proceedings and may limit your right to engage in discovery proceedings or to appeal an adverse decision.

### ***Servicing***

The agreement provides that Mosaic will use good faith efforts to service and collect on the Loan Obligations.

The agreement also provides that Mosaic will service all Notes and all Loans both before and after default. Any amounts received by Mosaic on such Loans will be forwarded to the holders of the corresponding Notes. In servicing such obligations, Mosaic may, in its discretion, utilize affiliated or unaffiliated third party loan servicers, repossessioners, collection agencies or other agents or contractors.

Mosaic and any third-party servicer servicing any such obligation shall have the right, without the investors' consent, subject to the foregoing servicing standard, to change the payment date or reduce the principal amount or the rate of interest or the place and manner of making payments on such obligations, or amend or waive any other term of such obligations, or charge off any obligations that Mosaic or a third-party servicer servicing the obligations deems uncollectible.

Investors will not receive unsuccessful payment fees or collection fees that Mosaic or a third-party servicer or collection agency charge, and such fees will be retained by the party receiving the fee as additional servicing compensation. We will pay investors any late fees we receive on Loan Obligations.

### ***Management Fee***

The Investor Agreement authorizes Mosaic to deduct our management fee from each investor's account each month. The fee is deducted from the cash balance in the investor account. If the investor has an insufficient cash balance to cover the management fee for any month, the unpaid portion of that fee will be deducted from future payments on Notes that are transferred to the investor's account. See "MSI Fees."

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion sets forth the material U.S. federal income tax considerations generally applicable to purchasers of the Notes. This discussion is based on the Internal Revenue Code, Treasury regulations promulgated thereunder (“Treasury Regulations”), administrative pronouncements of the U.S. Internal Revenue Service (“IRS”) and judicial decisions, all as currently in effect and all of which are subject to change and to different interpretations. Changes to any of the foregoing authorities could apply on a retroactive basis, and could affect the U.S. federal income tax consequences described below.

This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a particular Note holder’s circumstances, and does not discuss any aspect of U.S. federal tax law other than income taxation or any state, local or non-U.S. tax consequences of the purchase, ownership and disposition of the Notes. This discussion applies only to investors who hold the Notes as capital assets within the meaning of the Internal Revenue Code (generally, property held for investment). This discussion does not address U.S. federal income tax considerations applicable to Note holders that may be subject to special tax rules, such as:

- securities dealers or brokers, or traders in securities electing mark-to-market treatment;
- banks, thrifts or other financial institutions;
- insurance companies;
- regulated investment companies or real estate investment trusts;
- tax-exempt organizations;
- persons holding Notes as part of a “straddle,” “hedge,” “synthetic security” or “conversion transaction” for U.S. federal income tax purposes, or as part of some other integrated investment;
- partnerships or other pass-through entities;
- persons subject to the alternative minimum tax;
- certain former citizens or residents of the United States;
- non-U.S. Holders (as defined below); and
- “U.S. Holders” (as defined below) whose functional currency is not the U.S. dollar.

As used herein, a “U.S. Holder” is a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust if (A) a United States court has the authority to exercise primary supervision over the administration of the trust and one or more U.S. persons (as defined under the Internal Revenue Code) are authorized to control all substantial decisions of the trust or (B) it has a valid election in place to be treated as a U.S. person. A “Non-U.S. Holder” is any beneficial owner of a Note that, for U.S. federal income tax purposes, is not a U.S. Holder and that is not a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partnership holding Notes, and partners in such a partnership, should consult their own tax

advisors with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by the partnership.

THIS DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR PERSON. ACCORDINGLY, ALL PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES BASED ON THEIR PARTICULAR CIRCUMSTANCES.

## **Taxation of the Notes**

### ***In General***

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. However, although the matter is not free from doubt, we intend to treat the Notes as our debt instruments that have original issue discount (“OID”) for U.S. federal income tax purposes. Where required, we intend to file information returns with the U.S. Internal Revenue Service (“IRS”) in accordance with such treatment unless there is a change or clarification in the law, by regulation or otherwise, that would require a different characterization of the Notes.

You should be aware, however, that the IRS is not bound by our characterization of the Notes and the IRS or a court may take a different position with respect to the Notes’ proper characterization. For example, the IRS could determine that, in substance, each Note holder owns a proportionate interest in the corresponding Loan for U.S. federal income tax purposes or, for example, the IRS could instead treat the Notes as a different financial instrument (including an equity interest or a derivative financial instrument). Any different characterization could significantly affect the amount, timing, and character of income, gain or loss recognized in respect of a Note. For example, if the Notes are treated as our equity, (i) we would be subject to U.S. federal income tax on income, including interest, accrued on the corresponding Loan but would not be entitled to deduct interest or OID on the Notes, and (ii) payments on the Notes would be treated by the holder for U.S. federal income tax purposes as dividends (that may be ineligible for reduced rates of U.S. federal income taxation or the dividends-received deduction) to the extent of our earnings and profits as computed for U.S. federal income tax purposes.

***A different characterization may significantly reduce the amount available to pay interest on the Notes. You are strongly advised to consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes).***

The following discussion assumes that the Notes will be treated as our debt instruments that have OID for U.S. federal income tax purposes. Unless otherwise specified, the following discussion assumes that the Notes will not be subject to the rules governing contingent payment debt instruments.

### ***Taxation of Payments on the Notes***

You will generally be required to accrue OID income as ordinary interest income for U.S. federal income tax purposes, regardless of your regular method of tax accounting. If you hold a Note that has a maturity date of more than one year, you will be required to accrue OID income as ordinary interest income under a “constant yield method.” Under this treatment, if a payment on a Note is not made in accordance with the payment schedule in respect of the corresponding Loan (for example, because of a late payment on the corresponding Loan), you will be required to include an amount of OID in taxable income as interest even if you have not received the actual payment from the corresponding Loan.

The Treasury Regulations governing OID provide special rules for determining the amount and accrual of OID for debt instruments that provide for one or more alternative payment schedules applicable upon the occurrence

of contingencies. If the timing and amounts of the payments that comprise each payment schedule are known as of the issue date, and based on all the facts and circumstances as of the issue date, a single payment schedule for a debt instrument, including the stated payment schedule, is significantly more likely than not to occur, the amount and accrual of OID is determined based on that payment schedule. In addition, under the applicable Treasury Regulations, remote and/or incidental contingencies may generally be ignored. A contingency relating to the amount of a payment is incidental if, under all reasonably expected market conditions, the potential amount of the payment is insignificant relative to the total expected amount of the remaining payments on the debt instrument. A contingency relating to the timing of a payment is incidental if, under all reasonably expected market conditions, the potential difference in the timing of the payment is insignificant.

We believe that the management fee payable by a Note holder should be treated for U.S. federal income tax purposes as an offset against interest payable under the Notes, as a reduction in the yield on the Notes, with the Notes representing our indebtedness. If the IRS were to determine that, in substance, each Note holder owns a proportionate interest in the corresponding Loan for U.S. federal income tax purposes, and if the IRS were to determine that the Note holder paid us the management fee for investment related services, then the IRS might also determine that the management fee is an investment expense of the Note holder. If the management fee were to be characterized by the IRS as an investment expense of a Note holder rather than being characterized as an adjustment to the yield on the Notes, then purchasers of Notes who are individuals would be able to deduct such management fees only as a miscellaneous itemized deduction, deductible only to the extent in excess of two percent of adjusted gross income for a particular year.

The Notes provide for one or more alternative payment schedules because we are obligated to make payments on a Note only to the extent that we receive payments on the corresponding Loan. The payment schedule for each Note provides for payments of principal and interest on the Note in accordance with the payment schedule for the corresponding Loan. In addition to scheduled payments, we will prepay a Note to the extent that a Borrower prepays the Loan corresponding to the Note, and we will pay late fees collected on a corresponding Loan to the holders of the corresponding Note. Notwithstanding such contingencies, we intend to use the payment schedule of a Note to determine the amount and accrual of OID on the Note because we believe that a Note is significantly more likely than not to be paid in accordance with such payment schedule and/or the likelihood of nonpayment, prepayment or late payment on the Loan corresponding to such Note will be remote or incidental. If in the future we determine that the previous sentence does not apply to a Note, we anticipate that we will be required to determine the amount and accrual of OID for such Note pursuant to the rules applicable to contingent payment debt instruments, which are described below, and we shall so notify you.

OID on a Note will equal the excess of the Note's "stated redemption price at maturity" over its "issue price." The stated redemption price at maturity of a Note includes all payments of principal and stated interest on the Note under the payment schedule of the Note (net of the management fee). The issue price of a Note will generally equal the principal amount of a Note.

The amount of OID includible in income for a taxable year is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year in which the holder held the Note. The daily portion of OID is determined by allocating to each day of any accrual period within a taxable year a pro rata portion of an amount equal to the product of such Note's adjusted issue price at the beginning of the accrual period and its yield to maturity (properly adjusted for the length of the period). We intend to use 30-day accrual periods. The adjusted issue price of a Note at the beginning of any accrual period should be its issue price, increased by the aggregate amount of OID previously accrued with respect to the Note, and decreased by any payments of principal and interest previously made on the Note (net of the management fee). A Note's yield to maturity should be the discount rate that, when used to compute the present value of all payments of principal and interest to be made on the Note under the payment schedule of the Note (net of the management fee), produces an amount equal to the issue price of such Note.

If a Note is paid in accordance with its payment schedule, the amount of OID includible in income is anticipated to be based on the yield of the Note determined net of the management fee, which yield will be lower than the stated interest rate on the Note. As a result, you will generally be required to include an amount of OID in income that is less than the amount of stated interest paid on the Note.

Cash payments of interest and principal under the payment schedule on the Notes (net of the management fee) will not be separately included in income, but rather will be treated first as payments of previously accrued but unpaid OID and then as payments of principal.

### **Sale, Retirement or Other Taxable Disposition of Notes**

Upon the sale, retirement or other taxable disposition of a Note, you generally will recognize gain or loss equal to the difference, if any, between the amount realized upon the sale, retirement or other taxable disposition and your adjusted tax basis in the Note. In general, your adjusted tax basis in the Note will equal your cost for the Note, increased by any OID and market discount previously included in gross income by you, as discussed below, and reduced by any payments previously received by you in respect of the Note.

Except as discussed below with respect to a Note subject to rules governing market discount or contingent payment debt instruments, your gain or loss on the taxable disposition of the Note generally will be long-term capital gain or loss if the Note has been held for more than one year and short-term otherwise. The deductibility of capital losses is subject to limitations.

### **Prepayments**

If we prepay a Note in full, the Note will be treated as retired and, as described above, you will generally have gain or loss equal to the difference, if any, between the amount realized upon the retirement and your adjusted tax basis in the Note. If we prepay a Note in part, a portion of the Note will be treated as retired. Generally, for purposes of determining (i) your gain or loss attributable to the portion of the Note retired and (ii) your OID accruals on the portion of the Note remaining outstanding, the adjusted issue price, your adjusted tax basis, and the accrued but unpaid OID of the Note, determined immediately before the prepayment, will be allocated between the two portions of the Note based on the portion of the Note that is treated as retired. The yield to maturity of a Note is not affected by a partial prepayment.

### **Late Payments**

As discussed above, late fees collected on Loan will generally be paid to you. We anticipate that any late fees paid will be insignificant relative to the total expected amount of the remaining payments on the Note. In such case, any late fees paid to you should be taxable as ordinary income at the time such fees are paid or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

### **Nonpayment of Loan Corresponding to Note – Automatic Extension**

In the event that we do not make scheduled payments on a Note as a result of nonpayment by the Borrower on the corresponding Loan, you must continue to accrue and include OID on a Note in taxable income until the maturity date. Solely for purposes of the OID rules, the Note may be treated as retired and reissued on the scheduled payment date for an amount equal to the Note's adjusted issue price on that date. As a result of such reissuance, the amount and accrual of OID on the Note may change. At the time of the deemed reissuance, due to nonpayment by the Borrower, we may not be able to conclude that it is significantly more likely than not that the Note will be paid in accordance with one payment schedule and/or that the likelihood of future nonpayment, prepayment, or late payment by the Borrower on the Loan corresponding to such Note will be remote or incidental. Accordingly, the Note may become subject to the contingent payment debt instrument rules (which are discussed in more detail below). In addition, in the event that a Note's maturity date is extended because amounts remain due and payable on the initial maturity date by the Borrower on the Loan corresponding to the Note, the Note likely will be treated as reissued and become subject to the contingent payment debt instrument rules. If we determine that a Note is subject to the contingent payment debt instrument rules as a result of such a reissuance, we will notify you and provide the projected payment schedule and comparable yield.

If collection on a Note becomes doubtful, you may be able to stop accruing OID on the Note. Under current IRS guidance, it is not clear whether you may stop accruing OID if scheduled payments on a Note are not made.

You should consult your own tax advisor regarding the accrual and inclusion of OID in income when collection on a Note becomes doubtful.

### **Losses as a Result of Worthlessness**

In the event that a Note becomes wholly worthless, you should generally be entitled to deduct your loss on the Note as a capital loss in the taxable year the Note becomes wholly worthless.

### **Potential Characterization as Contingent Payment Debt Instruments**

Although we believe our intended treatment of a Note as our debt instrument that is not subject to the contingent payment debt instrument rules is reasonable, our position is not binding on the IRS or the courts and we cannot predict what the IRS or a court would ultimately decide with respect to the proper U.S. federal income tax treatment of the Notes. Accordingly, there exists a risk that the IRS or a court could determine that the Notes are “contingent payment debt instruments” because payments on the Notes are linked to performance on the corresponding Loan. If the Notes are characterized as contingent payment debt instruments, or in the future, if we conclude that a Note is subject to the contingent payment debt instrument rules, the Notes would be subject to special rules applicable to contingent payment debt instruments. If these rules were to apply, you would generally be required to accrue interest income under the noncontingent bond method. Under this method, interest would be taken into account whether or not the amount of any payment was fixed or determinable in the taxable year. The amount of interest that would be taken into account would generally be determined based on a hypothetical noncontingent bond, which is based on a “comparable yield” (generally, a hypothetical yield to be applied to determine interest accruals with respect to the Note, and which can be no less than the applicable federal rate) and a “projected payment schedule” (generally, a series of projected payments, the amount and timing of which would produce a yield to maturity on that Note equal to the comparable yield). Based on the comparable yield and the projected payment schedule, you will generally be required to accrue as OID the sum of the daily portions of interest for each day in the taxable year that you held the Note, adjusted to reflect the difference, if any, between the actual and projected amount of any contingent payments on the Note. The daily portions of interest are determined by allocating to each day in an accrual period the ratable portion of interest that accrues in such accrual period. The amount of interest you may accrue under this method could be higher or lower than the stated interest rate on the Notes. In addition, any gain recognized on the sale, exchange or retirement of your Note will generally be treated as ordinary interest income, and any loss will be treated as ordinary loss to the extent of prior OID inclusions, and then as capital loss thereafter.

### **Backup Withholding and Reporting**

We will be required to report information to the IRS on certain payments on a Note (including interest and discount) and on proceeds of the sale of a Note if you are not an exempt recipient (such as a corporation). In addition, backup withholding (currently at a 28% rate) may apply to payments made to you if (a) you do not furnish or you have failed to provide your correct taxpayer identification number, (b) we have been instructed by the IRS to backup withhold because of underreporting (generally meaning that the IRS has determined and notified you that you have failed to report any reportable dividend and interest payments required to be shown on a tax return for a taxable year), or (c) in certain circumstances, you have failed to comply with applicable certification requirements or otherwise establish an exemption from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the IRS on a timely basis. You should consult your tax advisor regarding the application of information reporting and backup withholding rules in your particular situation, the availability of an exemption, and the procedure for obtaining such an exemption, if applicable.

## ABOUT MOSAIC AND MSI

### Overview

Mosaic operates an online investment platform (“Investment Platform”) for financing solar projects. Through its Investment Platform, investors can support the growth of solar power generation while making investments with projected annual rates of return of between 5% and 10%, and developers of solar projects can obtain financing on more attractive terms than are available through traditional bank loans. These projected rates of return are subject to risks that could affect the amount or timing of payments on Loans, such as risks relating to default by the SPE or Solar Customer, the failure of an SPE to receive an expected Incentive Payment, low power output on the part of a solar installation, or underperformance of solar equipment. See “Risk Factors.” The Investment Platform is described in greater detail under “About Mosaic’s Business.”

Mosaic was formed as a limited liability company in October 2010 and converted to a Delaware corporation in May 2011. Until recently, Mosaic has maintained an online platform through which users could contribute toward the funding of solar installations, in exchange for which they would be issued rights, which Mosaic called “tiles,” entitling them to receive a share of the revenue generated by the solar installation, up to a maximum equal to the amount of their contribution. Repayment of tiles is funded by monthly solar lease payments made by the building owners. To date, Mosaic has raised almost \$350,000 for solar projects through the sale of tiles.

In September 2012, Mosaic completed its first solar project financing on the Investment Platform involving an offering of interest-bearing notes, through which it raised \$40,325. The notes were sold in a private placement under Regulation D. In January 2013 Mosaic commenced two additional private placements of notes under Regulation D, in which it raised an aggregate of \$375,550. At that time, Mosaic also commenced its first public offerings of notes under Rule 504 of Regulation D, involving the sale of three series of notes for aggregate proceeds of \$228,975.

MSI was formed in October 2012 for the purpose of, among other things, offering Notes in California pursuant to the intrastate offering exemption under Section 3(a)(11) of the Securities Act. MSI has no operating history prior to the commencement of this offering. During the foreseeable future, MSI expects its operations to be limited to ownership of Loans that are assigned to it by Mosaic and the issuance of Notes corresponding to those Loans. Mosaic maintains responsibility for MSI’s day-to-day operations, including maintenance of investor accounts, servicing of Loans, marketing activities, maintenance of the technology platform, and legal and administrative functions.

### Marketing

Mosaic attracts investors to its website, [www.joinmosaic.com](http://www.joinmosaic.com), through a variety of sources. It drives traffic through referrals from other parties (including online communities, social networks and marketers), and through search engine results. It is not dependent on any one source of traffic to its website. Mosaic has also developed strategic partnerships with several organizations with similar interests in promoting solar energy. These organizations, along with Mosaic, are working to build the global community solar movement in the name of fighting climate change and creating green jobs and cleaner sources of energy. Mosaic has relied on these partnerships’ expertise in shaping its business plan and worked to leverage its relationships to market its online platform cost-effectively. Mosaic plans to look to the global community solar movement as a source of investors on Mosaic’s online platform, as well as source of project leads for solar developers.

### Technology

Mosaic’s website and supporting services run on a cloud-based platform. Mosaic owns, operates and maintains elements of this system, but significant elements system are operated by third parties that Mosaic does not control. In particular, a significant portion of the system is hosted by Amazon Web Services, or AWS, which uses multiple locations. AWS provides Mosaic with computing, storage capacity, and other services pursuant to an agreement that continues until terminated by either party. AWS may terminate the agreement without cause by providing 30 days written notice, and may terminate the agreement immediately upon notice to Mosaic for cause,

including any material default or breach of the agreement by Mosaic. The agreement requires AWS to provide Mosaic with AWS's standard computing and storage capacity and related support in exchange for timely payment by Mosaic. Mosaic also maintains backups at a separate region within its cloud infrastructure. It backs up all customer data daily and replicates this data to a separate region within its cloud infrastructure via an encrypted connection.

Mosaic continuously monitors the performance and availability of its platform. It has a scalable infrastructure that utilizes standard techniques such as load-balancing and redundancies. It has developed its architecture to work effectively in a flexible cloud environment that has a high degree of elasticity to enable it to quickly respond to significant changes in demand.

Mosaic has written its own accounting software to process electronic cash movements, record book entries and calculate cash balances in its members' funding accounts. It processes electronic deposits and payments by originating ACH transactions.

The Investment Platform is designed and built as a highly scalable, multi-tier, redundant system. The platform incorporates technologies designed to prevent any single point of failure within the infrastructure from taking the entire system offline. This is achieved by utilizing load-balancing technologies at the front-end and business layer tiers and clustering technologies in the backend tiers to allow Mosaic to scale both horizontally and vertically depending on platform utilization. Mosaic maintains a complete backup of its website and supporting services within a separate region of its cloud infrastructure in order to minimize service disruptions in the event of significant regional outages.

### **Data Integrity and Scalability**

All sensitive data that is transmitted to and from Mosaic's customers and service providers is transacted using a secure transport protocol. Communication of sensitive data via the web site to its customers is secured utilizing SSL 128-bit enabled encryption certificates provided by VeriSign and Thawte, Inc. Communication of sensitive data with Mosaic's service providers is secured utilizing authenticated VPN, SSL 128-bit encryption and SSH protocols depending on the service providers' requirements. In the event of disaster, data is repeatedly stored securely within a separate region of Mosaic's cloud infrastructure.

Access to the data and services by Mosaic's employees is restricted based upon a least-privilege principle such that employees have access only to the information and systems needed to perform their function. Logging and monitoring of host systems is done in real-time to a centralized database with web based reporting and additional notification to the appropriate staff for any remediation.

### **Competition**

There are a number of existing online investment platforms, of which the leading platforms are offered by LendingClub and Prosper Marketplace. As of the date of this Offering Memorandum, LendingClub and Prosper Marketplace are registered to transact business with lenders in California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Louisiana, Maine, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New York, Rhode Island, South Carolina, South Dakota, Utah, Virginia, Washington, Wisconsin and Wyoming. LendingClub is also registered in Kentucky and West Virginia, and Prosper Marketplace is also registered in Alaska, Washington, D.C., Florida and Oregon. None of these platforms, however, focuses specifically on funding solar projects. In the solar space itself, investment groups such as Adam Capital provide financing.

In general, Mosaic faces competition from existing financial institutions that lend to solar developers, such as banks and specialty lenders. The commercial lending market for asset-backed lending in general and lending to solar projects in particular is competitive and rapidly changing. We expect competition to persist and intensify in the future, which could harm Mosaic's ability to increase volume on its platform. If Mosaic's financing model achieves broad success, additional competitors are likely to enter the market. The crowdfunding provisions enacted under Title III of the JOBS Act, when fully implemented by the SEC, are likely to lower the barriers to entry and may draw a significant number of competitors into the marketplace.

Mosaic's principal competitors include major banking institutions and other energy finance companies. Competition could result in reduced volumes, reduced fees or the failure of Mosaic's lending platform to achieve or maintain more widespread market acceptance, any of which could harm its business. If any of Mosaic's principal competitors or any major financial institution decided to compete vigorously for its customers, its ability to compete effectively could be significantly compromised and its operating results could be harmed. Most of Mosaic's current or potential competitors have significantly more financial, technical, marketing and other resources than Mosaic does and may be able to devote greater resources to the development, promotion, sale and support of their platforms and distribution channels. Mosaic's potential competitors may also have longer operating histories, more extensive customer bases, greater brand recognition and broader customer relationships than Mosaic does. These competitors may be better able to develop new products, to respond quickly to new technologies and to undertake more extensive marketing campaigns. Mosaic's industry is driven by constant innovation. If Mosaic is unable to compete with such companies and meet the need for innovation, the demand for its platform could stagnate or substantially decline.

### **Government Regulation**

There are many levels of government regulations affecting our business. At the federal level, incentive programs such as the 1603 cash grant and the Investment Tax Credit both heavily influence project economics for solar developers. If these programs were eliminated, solar developers may not be able to finance their projects and MSI may have a diminished pool of developers seeking to finance solar projects on the Investment Platform. See "About Mosaic's Business—Background—The U.S. Photovoltaic Industry."

Some states, including California, require nonfinancial companies such as Mosaic to obtain a finance lender's license as a condition to making commercial loans on a regular basis. Mosaic has recently obtained such a license in California. Neither Mosaic nor MSI will finance projects in states where such licenses are required until they obtain the required license. MSI has no current plans to obtain a similar license but instead will rely on Mosaic to originate Loans in California and other states where a finance lender's license is required and assign those Loans to MSI.

Net-metering laws require utilities to give owners of grid-connected solar installations retail credit for any excess energy not used by the owner. These laws are important for facilitating the growth of photovoltaic installations because they allow system owners to monetize their savings immediately when a project goes live. Currently, the states of Alabama, Idaho, Mississippi, South Carolina, South Dakota, Tennessee and Texas do not require utilities to net-meter with renewable energy systems.

Local jurisdictions have diverse criteria for approving permits to install solar, and the process can be time-consuming and costly for developers. For example, a report in January 2011 by SunRun, a residential solar developer, stated that local permitting, inspection and utility interconnection processes can add more than \$0.50/watt or \$2,500 to the cost of a 5 kW installation, the equivalent of \$1.0 billion in "hidden costs" of solar over the next five years. The U.S. Department of Energy is currently working with the Solar America Board for Codes and Standards to create guidance on how to streamline and expedite the permitting process for solar installations. If municipalities are successful in streamlining or even eliminating permitting for small-scale solar installations, installed costs could drop significantly to support better project economics for developers.

### **Employees**

We do not have any employees. Mosaic currently has 17 full-time employees and no part-time employees.

### **Properties**

Mosaic's and MSI's headquarters are located in Oakland, California, where Mosaic currently leases 2,000 square feet of office space under a lease expiring in June 2013.

## MSI FINANCIAL INFORMATION

MSI was formed in October 2012 and has had minimal operations prior to this offering. As of December 31, 2012, MSI had no assets or liabilities. In January 2013, Mosaic made a capital contribution of \$10,000. MSI does not expect to have significant assets or liabilities until it completes the sales of Notes described in Appendixes A and B, at which time its assets and liabilities will each be approximately equal to the principal amount of the Notes.

## MANAGERS OF MSI

The following table sets forth information regarding the managers of MSI:

| <i>Name</i>            | <i>Age</i> | <i>Position(s)</i> |
|------------------------|------------|--------------------|
| Daniel Rosen           | 26         | Manager            |
| William Parish         | 30         | Manager            |
| Walter Steven Richmond | 40         | Manager            |
| Gregory Rosen          | 41         | Manager            |

*Daniel Rosen* co-founded Solar Mosaic, LLC in December 2009 and has served as CEO and a member of the Board of Directors of Mosaic since May 2011 and as a Manager of MSI since October 2012. In the summer of 2010, Mr. Rosen was a Fellow at the Unreasonable Institute, which helped develop the idea for Solar Mosaic. From 2008 to 2009, Mr. Rosen led business development for Element Cleantech, an Israeli algae bio-diesel company. During this time he also studied at Pardes Institute, Hebrew University in Jerusalem and was a fellow at the Presentense Institute. In 2007, Mr. Rosen was the Cleantech Coordinator for the Northern Arizona Center for Emerging Technologies, which incubated technology companies based in Northern Arizona. From 2003 through 2006, Mr. Rosen helped form and grow the Native Movement organization, which supported sustainable development and youth empowerment in Indigenous communities in the Southwest. Mr. Rosen was named to Forbes magazine's 30 under 30 list in the field of Energy.

*William Parish* co-founded Solar Mosaic, LLC in December 2009 and has served as President, Secretary and a member of the Board of Directors of Mosaic since May 2011 and as a Manager of MSI since October 2012. From 2007 to 2010, Mr. Parish developed a proposal to create a Clean Energy Corps to create 5 million green jobs, which influenced the American Recovery and Reinvestment Act; was a senior advisor to Earth Aid, a software company; co-founded Green Owl Records, a music label; consulted for Green For All and 1Sky, two climate change advocacy organizations; and co-authored *Making Good: Finding Meaning, Money & Community in a Changing World* (Rodale/Penguin). From 2003 to 2007, Mr. Parish was the co-founder and Coordinator of the Energy Action Coalition, a youth clean energy advocacy organization. Mr. Parish is an Ashoka Fellow

*Walter Steven Richmond* has served as Chief Financial Officer of Mosaic since July 2011 and as a Manager of MSI since October 2012. Between January 2010 and July 2011, Mr. Richmond worked as a strategy consultant in the financial services industry. In January 2008, Steve co-founded DebtGoal.com, now called SavvyMoney.com, a consumer Internet service that helps its clients pay down debt. Mr. Richmond was the Chief Operating Officer at SavvyMoney until June 2009. Between September 2006 and January 2008, Mr. Richmond worked as a strategy consultant in the financial services industry. In 1999 Mr. Richmond co-founded SelectMinds, a provider of talent acquisition and social recruiting software, where he was Vice President of Sales and Marketing until April 2006. Mr. Richmond is a graduate of Princeton University.

*Gregory Rosen* has served as Chief Investment Officer of Mosaic since June 2012 and as a Manager of MSI since October 2012. From June 2010 to June 2012, he was Vice President, Solar Finance, with Union Bank. From November 2007 to January 2010, he was Vice President, Project Finance, with Helio Micro Utility, Inc., a solar finance company. From April 2000 to November 2007, he served in various management roles with PowerLight Corporation a solar power company, and SunPower Corporation, a solar power company that acquired PowerLight in January 2007.

## COMPENSATION OF MANAGERS

Our Managers do not receive compensation apart from their compensation as officers of Mosaic.

## PRINCIPAL STOCKHOLDERS

MSI is wholly-owned by Mosaic. Set forth below is information about the beneficial owners of Mosaic's outstanding Common Stock and Preferred Stock.

### Common Stock

The table below sets forth information as of December 31, 2012 with respect to beneficial ownership of Mosaic's Common Stock by each of MSI's managers and beneficial owners of more than 10% of Mosaic's outstanding Common Stock. This table includes shares of Mosaic's Series FF and Series A Preferred Stock, each of which is convertible into Common Stock and votes together with its Common Stock on an as-converted basis. Except as otherwise noted, the address for each stockholder is c/o Solar Mosaic, Inc. 55 Harrison Street, Suite 300, Oakland, CA 94607.

| <i>Name</i>   | <i>Shares</i> | <i>Percent</i> |
|---|---------------|----------------|
| Daniel Rosen  | 2,000,000 (1) | 23.7%          |
| William Parish  | 2,000,000 (1) | 23.7%          |
| Nick Allen<br>Spring Ventures, LLC<br>360 Pine Street, 7th Floor<br>San Francisco, CA 94104 | 979,468 (2)   | 11.6%          |
| James Sandler<br>Four Embarcadero Center<br>San Francisco, CA 94111                         | 997,534 (3)   | 11.8%          |
| Walter Steven Richmond  | 227,083 (4)   | 2.6%           |
| Gregory Rosen   | 5,400 (4)     | *              |
| All Managers as a Group   | 4,205,400 (5) | 48.6%          |

\* Less than 1%.

- (1) Includes 400,000 shares issuable upon conversion of Series FF Preferred Stock.
- (2) Consists of shares of Series A Preferred Stock held by Spring Ventures, LLC. Mr. Allen is a general partner of Spring Ventures, LLC and a member of our Board of Directors.
- (3) Consists of shares of Series A Preferred Stock.
- (4) Consists of shares that will be issuable upon exercise of outstanding stock options within 60 days December 31, 2012.
- (5) Includes 842,000 shares of Series FF Preferred Stock. Also includes 232,483 shares of common stock that will be issuable upon exercise of outstanding stock options within 60 days after December 31, 2012.

### Series FF Preferred Stock

The table below sets forth information as of December 31, 2012 with respect to beneficial ownership of Mosaic's Series FF Preferred Stock by each of MSI's managers and holders of more than 10% of Mosaic's outstanding shares of Series FF Preferred Stock. The address for each stockholder is c/o Solar Mosaic, Inc. 55 Harrison Street, Suite 300, Oakland, CA 94607.

| <i>Name</i>             | <i>Shares</i> | <i>Percent</i> |
|-------------------------|---------------|----------------|
| Daniel Rosen            | 400,000       | 47.5%          |
| William Parish          | 400,000       | 47.5%          |
| Arthur Coulston         | 42,000        | 5.0%           |
| Walter Steven Richmond  | —             | —              |
| Gregory Rosen           | —             | —              |
| All Managers as a Group | 842,000       | 100.0%         |

### Series A Preferred Stock

The table below sets forth information as of December 31, 2012 with respect to beneficial ownership of Mosaic's Series A Preferred Stock by each of MSI's managers and beneficial owners of more than 10% of the outstanding shares of Mosaic's Series A Preferred Stock. Except as otherwise noted, the address for each stockholder is c/o Solar Mosaic, Inc. 55 Harrison Street, Suite 300, Oakland, CA 94607.

| <i>Name</i>   | <i>Shares</i> | <i>Percent</i> |
|---|---------------|----------------|
| Nick Allen<br>Spring Ventures, LLC<br>360 Pine Street, 7th Floor<br>San Francisco, CA 94104 | 979,468 (1)   | 23.4%          |
| James Sandler<br>185 Edgewood Avenue<br>San Francisco, CA 94117                             | 979,468       | 23.8%          |
| Josh Mailman<br>Serious Change LP<br>3555 Timmons Lane, Suite 800<br>Houston, TX 77027      | 537,634       | 12.8%          |
| Walter Steven Richmond  | —             | —              |
| Gregory Rosen   | —             | —              |
| All Managers as a Group   | —             | —              |

- (1) Consists of shares held by Spring Ventures, LLC. Mr. Allen is a general partner of Spring Ventures, LLC and a member of Mosaic's Board of Directors.

## Options

The table below sets forth information as of December 31, 2012 with respect to options granted pursuant to the Incentive Plan held by each of MSI's managers. Except for options granted pursuant to the Incentive Plan, no options, warrants or other rights to purchase Mosaic's securities are held by any person.

| <i>Name</i>             | <i>Shares</i> | <i>Exercise Price</i> | <i>Expiration Date</i> |
|-------------------------|---------------|-----------------------|------------------------|
| Dan Rosen               | –             | N/A                   | N/A                    |
| William Parish          | –             | N/A                   | N/A                    |
| Walter Steven Richmond  | 550,000       | \$0.006               | 1/15/22                |
|                         | 100,000       | \$0.006               | 4/17/22                |
| Gregory Rosen           | 5,400         | \$0.006               | 3/21/22                |
|                         | 510,000       | \$0.12                | 7/24/22                |
| All Managers as a Group | 1,165,400     |                       |                        |

## INTERESTS OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

### Convertible Promissory Notes

Between December 2010 and January 2012 Mosaic sold an aggregate of \$740,000 in convertible promissory notes ("Convertible Notes") to private investors. The Convertible Notes bore interest at 8% per year and were automatically convertible into Mosaic's Series A Preferred Stock at a price equal to the lesser of (a) 80% of the price per share at which Mosaic sold Series A Preferred Stock to new investors or (b) a price based on a specified maximum valuation of MSI (the "Valuation Cap") divided by Mosaic's outstanding shares (including, for such purpose, shares reserved for issuance under any stock option plan). Between December 2010 and September 2011, Mosaic issued an aggregate of \$345,000 of Convertible Notes with a Valuation Cap of \$3 million ("3 Million Notes"). Between October 2011 and January 2012, Mosaic issued an aggregate of \$395,000 of Convertible Notes with a Valuation Cap of \$5 million ("5 Million Notes").

The purchasers of the Convertible Notes included the following:

| <i>Name</i>          | <i>Type of Convertible Note Purchased</i> | <i>Amount</i> |
|----------------------|---|---------------|
| Spring Ventures, LLC | \$3 Million Note                          | \$50,000      |
|                      | \$5 Million Note                          | \$200,000     |
| James Sandler        | \$3 Million Note                          | \$100,000     |
|                      | \$5 Million Note                          | \$100,000     |

Nick Allen, a member of Mosaic's Board of Directors, is a general partner of Spring Ventures, LLC ("Spring"). In May 2012, the \$5 Million Note held by Spring was amended to lower the Valuation Cap to \$3.6 million.

### Series A Preferred Stock Financing

In May 2012, Mosaic sold an aggregate of 3,195,473 shares of Series A Preferred Stock ("Series A Preferred") for a total purchase price of \$2,506,739. The purchase price to new investors was \$0.93 per share. The principal and accrued interest under the amended \$5 Million Note held by Spring was converted into Series A Preferred at a price of \$0.60934 per share, the principal and accrued interest under the remaining \$5 Million Notes

was converted at a price of \$0.744 per share, and the principal and accrued interest under the \$3 Million Notes was converted at a price of \$0.50778 per share.

The purchasers of Series A Preferred included the following:

| <u>Name</u>          | <u>Shares</u>  | <u>Price per Share</u> | <u>Total Purchase Price</u> |
|----------------------|----------------|------------------------|-----------------------------|
| Spring Ventures, LLC | 537,634        | \$0.93                 | \$499,992.62                |
|                      | 105,697        | \$0.50778              | \$53,670.83                 |
|                      | <u>336,137</u> | \$0.60934              | <u>\$204,821.48</u>         |
|                      | <b>979,468</b> |                        | <b>\$758,491.93</b>         |
| James Sandler        | 537,634        | \$0.93                 | \$499,992.62                |
|                      | 211,956        | \$0.50778              | \$107,627.02                |
|                      | <u>140,418</u> | \$0.744                | <u>\$104,471.00</u>         |
|                      | <b>890,008</b> |                        | <b>\$712,097.64</b>         |
| Serious Change LP    | <b>537,634</b> | \$0.93                 | <b>\$499,992.62</b>         |

Nick Allen, a member of Mosaic's Board of Directors, is a general partner of Spring.

In connection with this transaction, Mosaic and the purchasers of Series A Preferred entered into an Investors' Rights Agreement and a Voting Agreement. The Voting Agreement was also signed by the principal holders of Mosaic's Common Stock and Series FF Preferred Stock.

The Investors' Rights Agreement grants the purchasers of Series A Preferred the right (i) to require Mosaic to register their shares with the SEC under certain circumstances, (ii) to participate in future financing transactions pro rata (including over-allotments), and (iii) to receive periodic financial information and to inspect Mosaic's properties, examine its books and records and discuss its business affairs with members of our management.

The Voting Agreement, as amended to date, provides that Mosaic's Board of Directors shall consist of five directors, one of which shall be a person designated by Spring. At present, Mr. Allen is serving as Spring's designee. In addition, under the Voting Agreement, stockholders are required to vote in favor of any sale of Mosaic that is approved by Mosaic's Board and the holders of at least 60% of its outstanding Common Stock (including shares issuable upon conversion of Series A Preferred).

In August 2012 Mosaic sold an additional 430,103 shares of Series A Preferred at a purchase price of \$0.93 per share, including 107,526 shares sold to James Sandler for a total purchase price of \$99,999.18.

## **Executive Offer Letters**

### ***Walter Steven Richmond***

In August 2011, Mosaic entered into an offer letter with its Chief Financial Officer, Walter Steven Richmond. The offer letter initially provided for a salary of \$5,000 per month beginning on February 15, 2012, to be increased to \$10,000 per month at such time as Mosaic raised at least \$1 million in equity financing. Mr. Richmond's salary was adjusted to \$10,833 per month following Mosaic's sale of Series A Preferred Stock in May 2012. The offer letter also provided for Mr. Richmond to receive an option to purchase 550,000 shares of Mosaic's Common Stock pursuant to the Incentive Plan at an exercise price equal to \$0.01 per share, vesting monthly over a four-year period.

In the event of a Change in Control or the termination of Mr. Richmond's employment without Cause (each as defined in the offer letter), any options held by Mr. Richmond shall immediately become fully vested and exercisable. "Change in Control" is defined as (x) an acquisition of 50% or more of Mosaic's voting securities, (y) a merger in which Mosaic's stockholders immediately prior to the transaction do not retain majority control of the surviving entity or (z) a sale of substantially all of Mosaic's assets, or our liquidation or dissolution. "Cause" is

defined as (i) gross negligence or willful misconduct in the performance of one's duties resulting in material damage to Mosaic or its subsidiaries, (ii) willful, substantial and continuous failure to substantially perform one's reasonably-assigned duties, (iii) commission of any act of fraud with respect to Mosaic, (iv) conviction of or a plea of guilty or *nolo contendere* to a felony or any crime involving moral turpitude, or (v) violation of any confidentiality agreement with Mosaic.

### ***Gregory Rosen***

In June 2012, Mosaic entered into an offer letter with its Chief Investment Officer, Gregory Rosen. Under the offer letter, Mr. Rosen is entitled to a salary of \$12,500 per month. The offer letter also provides for Mr. Rosen to receive an option to purchase 510,000 shares of Mosaic's Common Stock pursuant to the Incentive Plan at an exercise price equal to the fair market value of Mosaic's Common Stock, with 25% of the shares vesting one year after the commencement of employment and the remainder vesting in 36 equal monthly installments thereafter.

If, during the first year of Mr. Rosen's employment, Mosaic terminates his employment for any reason other than for Cause or he resigns for Good Reason (each as defined in the offer letter), then Mr. Rosen will be entitled to a lump sum severance payment equal to four months plus two weeks of base salary at the rate in effect on the date when his employment commenced.

"Cause" is defined as (i) failure to substantially perform one's assigned duties or responsibilities as directed or assigned by Mosaic's Board of Directors after written notice describing in reasonable detail the failure to perform such duties or responsibilities and the employee having had the opportunity to address the Board regarding such alleged failures and his failure to remedy the same within 30 days after such notice, (ii) illegal conduct that was or is materially injurious to Mosaic or its affiliates, (iii) material violation of a federal or state law or regulation directly or indirectly applicable to the business of Mosaic or its affiliates, which was or is reasonably likely to be materially injurious to Mosaic or its affiliates, (iv) material breach of a confidentiality agreement or invention assignment agreement with Mosaic, or (v) conviction of or entry of a plea of *nolo contendere* to a felony or any material act of moral turpitude, dishonesty or fraud against, or the material misappropriation of material property belonging to Mosaic or its affiliates.

"Good Reason" is defined as Mr. Rosen's resignation within 30 days following the expiration of any Mosaic cure period (discussed below) following the occurrence of one or more of the following without Mr. Rosen's consent: (i) a material reduction in base salary other than in connection with a reduction applicable to the management team generally; (ii) a material change in the geographic location of Mr. Rosen's primary work location; (iii) a breach by Mosaic of the offer letter or any other agreement between Mr. Rosen and Mosaic that is approved by the Board of Directors where such breach materially and adversely affects Mr. Rosen; (iv) a material adverse change in Mr. Rosen's authority, duties or responsibilities unless Mr. Rosen remains a senior executive officer and is given such authority, duties and responsibilities as are consistent with such position; or (v) the Board's failure to approve Mr. Rosen's initial option grant prior to September 30, 2012. Notwithstanding the foregoing, under the offer letter, Mr. Rosen agrees not to resign for Good Reason without first providing Mosaic with written notice of the grounds for Good Reason within 90 days following the initial existence of such grounds and a reasonable cure period, but in no case more than 45 days, following the date when Mosaic receives such notice during which such condition must not have been cured.

## GLOSSARY OF TERMS

The financing of solar projects involves parties, transactions or contractual relationships that are generally referred to by terms that may not be familiar to persons outside the solar power or project finance industries. In addition, we use some novel terms to describe aspects of our own business. To aid investors' understanding of the terms that appear throughout this Offering Memorandum, some of those terms are defined below. As used in this Offering Memorandum:

***ACH*** stands for Automated Clearing House, a financial network for processing electronic funds transfers.

***FBO account*** means a pooled account Mosaic maintains with Wells Fargo Bank in which it holds funds for the benefit of separate investors.

***Financing request*** means a proposed financing for which Notes are offered on the Investment Platform.

***Funding account*** means an investor's sub-account in the FBO account.

***Interconnection*** means the stage of a solar project when construction has been completed and the system owner receives permission to operate the system and connect it to the electric power grid.

***Investor*** means a party with an active investor account on the Investment Platform.

***Loan*** means the loan to an SPE funded by Mosaic or MSI.

***Loan Obligations*** means debt service obligations of a Borrower in connection with a Loan.

***Owner*** means the party that owns the project (typically through its ownership of the SPE for the project).

***PPA*** means an agreement under which the solar electricity purchaser compensates the owner of the solar power system by purchasing the power generated by the system.

***PV*** stands for "photovoltaic," the technology behind a common type of solar panels that converts sunlight directly to electricity.

***Project*** means a solar project financed by Mosaic.

***Solar Customer*** means the party that uses the electricity generated by the solar power installation, usually pursuant to a lease of the installation or a PPA.

***Solar project*** means a project to finance and install a solar power system and connect the system to the electric power grid.

***SPE*** means a special purpose entity formed for the purpose of holding the assets and liabilities related to a solar project.

## APPENDIX A

### Ronald McDonald House – San Diego, California

Set forth below is a description of the Project at the Ronald McDonald House in San Diego, California and the corresponding series of Notes. Unless otherwise defined below, capitalized terms used in this Appendix shall have the meanings given to them in the Offering Memorandum.

| <b>About the Loan and the Notes</b>         |                                       |
|---|---------------------------------------|
| <i>Principal Amount</i>                     | \$157,750                             |
| <i>Interest Rate</i>                        | 5.50%                                 |
| <i>Origination Fee Paid to Mosaic</i>       | \$1,000                               |
| <i>Term of Loan</i>                         | 120 months                            |
| <i>Term of Notes</i>                        | 117 months                            |
| <i>Repayment Schedule</i>                   | Monthly                               |
| <i>Monthly Payment</i>                      | Variable – see payment schedule below |
| <i>Minimum Debt Service Coverage Ratio*</i> | 1.15x                                 |

\* Borrower's estimated net revenue after operating costs over a given period, divided by the estimated payments due under its Loan Obligations over the same period.

| <b>About the Project</b>               |   |
|--|---|
| <i>Size of Project</i>                 | 114 kW  |
| <i>Location</i>                        | San Diego, CA   |
| <i>Solar Customer</i>                  | Ronald McDonald House Charities of San Diego, Inc.  |
| <i>Type of Contract</i>                | Power purchase agreement  |
| <i>Interconnection Date</i>            | June 23, 2010   |
| <i>Project Age as of December 2012</i> | 30 months   |
| <i>Modules</i>                         | 518 modules manufactured by Canadian Solar, covered by 25-year warranty against decline in efficiency and 6-year warranty against defects |
| <i>Inverters</i>                       | 100 kW inverter manufactured by PV Powered, Inc., covered by 10-year warranty against defects   |

|  |   |
|--|---|
| <i>Installer</i>                                     | HelioPower  |
| <i>Incentive Payments</i>                            | The Borrower is eligible for production-based incentive payments from San Diego Gas and Electric at the rate of \$0.22 per kWh over a 5-year period from the date of interconnection. |
| <i>Solar Customer's Assets as of 12/31/2011</i>      | \$27,024,779*   |
| <i>Solar Customer's Liabilities as of 12/31/2011</i> | \$15,494,577*   |
| <i>Borrower's Assets as of 9/30/2012</i>             | \$647,627**   |
| <i>Borrower's Liabilities as of 9/30/2012</i>        | \$595,462**   |

\* Financial information regarding Solar Customer is available at <http://www.guidestar.org/PartnerReport.aspx?ein=95-3251490&Partner=Amex>. MSI played no role in the preparation of this information, has not verified the information and neither approves nor adopts the information.

\*\* Information provided by Borrower. MSI played no role in the preparation of this information, has not verified the information and neither approves nor adopts the information.

| <b>About the Power Purchase Agreement</b>  |                 |
|--|-----------------|
| <i>PPA Start Date</i>                      | August 11, 2009 |
| <i>Term (from Date of Interconnection)</i> | 20 years        |
| <i>Initial Price per kWh</i>               | \$0.11          |
| <i>Annual Escalator</i>                    | 2.0%            |

## **The Project**

The Project consists of a rooftop PV system that is generating power for the Ronald McDonald House in San Diego, California (the "Site"). Ronald McDonald House is a "home away from home" to families with children being treated for serious conditions at local hospitals. The Site is a 66,000 square-foot building constructed in 2009 with 47 guest rooms and has been awarded LEED Silver certification by the U.S. Green Building Council. It is operated by Ronald McDonald House Charities of San Diego, Inc. (the "Solar Customer").

The power generated by the Project is purchased by the Solar Customer pursuant to a Power Purchase Agreement (the "PPA") between the Solar Customer and the Borrower, a special purpose entity formed by the owner of the Project (the "Owner") for the purpose of holding the assets and liabilities relating to the Project, including the power generating equipment.

In addition to revenue from the PPA, the Project is eligible to receive production-based Incentive Payments from San Diego Gas and Electric. These incentive payments were awarded under the California Solar Initiative in September 2010 and result in payments to the Borrower at a rate of \$0.22 per kWh of power generated. Payments are made on a monthly basis for a period five years following the date when the Project commenced commercial operation.

The Project's equipment consists of 518 solar modules manufactured by Canadian Solar and a 100 kW inverter manufactured by PV Powered, Inc. The modules are subject to a 25-year manufacturer's warranty that

guarantees that the modules' power output will be at least 97% of the rated power output during the first year and will decline by not more than 0.7% per year thereafter, and that, by the end of year 25, such power output will be not less than 80% of the modules' rated output. The modules are also covered by a six-year warranty against defects in materials and workmanship. The inverter is covered by a 10-year manufacturer's warranty against defects in materials and workmanship.

The solar facility at the Site was installed by HeliPower, an integrated energy solutions company based in Murrieta, California. HeliPower was founded in 2001 and has completed approximately 3,000 solar and clean energy systems for commercial, residential, public sector and utility clients in the United States and abroad. HeliPower is responsible for ongoing operations and maintenance of the solar facility, and HeliPower and the Borrower expect to execute a formal Operations and Maintenance Agreement in December 2012.

The Borrower is refinancing the Project through the Loan, on which principal and interest will be paid out of revenues generated under the PPA and Incentive Payments. The estimated net revenue generated by the Project during the term of the Loan, based on the projected amount of power generated and expenses incurred during that period, is represented by the table set forth below. Actual amounts of net revenue generated by the Project may differ from the amounts set forth below. Our estimates regarding electricity generated and expenses incurred during each payment period are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Estimates regarding electricity generation are based on historical climate patterns. Climate patterns are inherently variable and difficult to predict, and if average cloud cover during the term of the Loan is greater than the historical averages, the actual amounts of electricity generated during the term of the Loan, and resulting revenues, will fall short of the amounts set forth below. In addition, the amount of electricity generated or expenses incurred by the Project could be adversely affected by unanticipated events resulting in damage to the power generating equipment, increases in insurance rates and other factors that are unpredictable and beyond our control. See "Risk Factors—Risk Relating to the Borrower and the Project."

#### Projected Power Generation and Net Revenue

| Monthly Payment Period | Estimated Electricity Generated (kWh) <sup>1</sup> | Price per kWh | Estimated Gross Revenue | Estimated Expenses <sup>2</sup> | Estimated Net Revenue |
|------------------------|--|---------------|-------------------------|---------------------------------|-----------------------|
| 1                      | 11,248   | 0.334         | 3,762                   | 365                             | 3,397                 |
| 2                      | 11,248   | 0.334         | 3,762                   | 365                             | 3,397                 |
| 3                      | 11,248   | 0.334         | 3,762                   | 365                             | 3,397                 |
| 4                      | 17,497   | 0.334         | 5,852                   | 365                             | 5,487                 |
| 5                      | 17,409   | 0.334         | 5,852                   | 365                             | 5,487                 |
| 6                      | 17,409   | 0.337         | 5,862                   | 370                             | 5,492                 |
| 7                      | 11,192   | 0.337         | 3,769                   | 370                             | 3,399                 |
| 8                      | 11,192   | 0.337         | 3,769                   | 370                             | 3,399                 |
| 9                      | 11,192   | 0.337         | 3,769                   | 370                             | 3,399                 |
| 10                     | 9,948  | 0.337         | 3,350                   | 370                             | 2,980                 |
| 11                     | 9,948  | 0.337         | 3,350                   | 370                             | 2,980                 |
| 12                     | 9,948  | 0.337         | 3,350                   | 370                             | 2,980                 |
| 13                     | 11,192   | 0.337         | 3,769                   | 370                             | 3,399                 |

<sup>1</sup> Based on average amount of sunlight during time of year and warranted performance of solar panels over their lifetime, assuming the Notes are issued in April 2013 or shortly thereafter.

<sup>2</sup> Expenses consist primarily of site lease payments, scheduled project maintenance, insurance, and administrative expenses such as billing, accounting and governmental filing expenses.

| <b>Monthly Payment Period</b> | <b>Estimated Electricity Generated (kWh)<sup>1</sup></b> | <b>Price per kWh</b> | <b>Estimated Gross Revenue</b> | <b>Estimated Expenses<sup>2</sup></b> | <b>Estimated Net Revenue</b> |
|-------------------------------|--|----------------------|--------------------------------|---------------------------------------|------------------------------|
| 14                            | 11,192   | 0.337                | 3,769                          | 370                                   | 3,399                        |
| 15                            | 11,192   | 0.337                | 3,769                          | 370                                   | 3,399                        |
| 16                            | 17,409   | 0.337                | 5,862                          | 370                                   | 5,492                        |
| 17                            | 17,322   | 0.337                | 5,862                          | 370                                   | 5,492                        |
| 18                            | 17,322   | 0.339                | 5,873                          | 375                                   | 5,499                        |
| 19                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 20                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 21                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 22                            | 9,898  | 0.339                | 3,356                          | 375                                   | 2,981                        |
| 23                            | 9,898  | 0.339                | 3,356                          | 375                                   | 2,981                        |
| 24                            | 9,898  | 0.339                | 3,356                          | 375                                   | 2,981                        |
| 25                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 26                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 27                            | 11,136   | 0.339                | 3,776                          | 375                                   | 3,401                        |
| 28                            | 17,322   | 0.339                | 5,873                          | 375                                   | 5,499                        |
| 29                            | 17,235   | 0.339                | 5,873                          | 375                                   | 5,499                        |
| 30                            | 17,235   | 0.121                | 2,093                          | 446                                   | 1,647                        |
| 31                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 32                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 33                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 34                            | 9,849  | 0.121                | 1,196                          | 446                                   | 750                          |
| 35                            | 9,849  | 0.121                | 1,196                          | 446                                   | 750                          |
| 36                            | 9,849  | 0.121                | 1,196                          | 446                                   | 750                          |
| 37                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 38                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 39                            | 11,080   | 0.121                | 1,346                          | 446                                   | 899                          |
| 40                            | 17,235   | 0.121                | 2,093                          | 446                                   | 1,647                        |
| 41                            | 17,149   | 0.121                | 2,093                          | 446                                   | 1,647                        |
| 42                            | 17,149   | 0.124                | 2,124                          | 452                                   | 1,672                        |
| 43                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |
| 44                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |
| 45                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |
| 46                            | 9,800  | 0.124                | 1,214                          | 452                                   | 762                          |
| 47                            | 9,800  | 0.124                | 1,214                          | 452                                   | 762                          |
| 48                            | 9,800  | 0.124                | 1,214                          | 452                                   | 762                          |
| 49                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |
| 50                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |
| 51                            | 11,025   | 0.124                | 1,366                          | 452                                   | 913                          |

| <b>Monthly Payment Period</b> | <b>Estimated Electricity Generated (kWh)<sup>1</sup></b> | <b>Price per kWh</b> | <b>Estimated Gross Revenue</b> | <b>Estimated Expenses<sup>2</sup></b> | <b>Estimated Net Revenue</b> |
|-------------------------------|--|----------------------|--------------------------------|---------------------------------------|------------------------------|
| 52                            | 11,025   | 0.124                | 2,124                          | 452                                   | 1,672                        |
| 53                            | 11,025   | 0.124                | 2,124                          | 452                                   | 1,672                        |
| 54                            | 11,025   | 0.126                | 2,156                          | 458                                   | 1,698                        |
| 55                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 56                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 57                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 58                            | 11,025   | 0.126                | 1,232                          | 458                                   | 774                          |
| 59                            | 11,025   | 0.126                | 1,232                          | 458                                   | 774                          |
| 60                            | 11,025   | 0.126                | 1,232                          | 458                                   | 774                          |
| 61                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 62                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 63                            | 11,025   | 0.126                | 1,386                          | 458                                   | 928                          |
| 64                            | 11,025   | 0.126                | 2,156                          | 458                                   | 1,698                        |
| 65                            | 11,025   | 0.126                | 2,156                          | 458                                   | 1,698                        |
| 66                            | 11,025   | 0.129                | 2,188                          | 465                                   | 1,723                        |
| 67                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 68                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 69                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 70                            | 11,025   | 0.129                | 1,250                          | 465                                   | 786                          |
| 71                            | 11,025   | 0.129                | 1,250                          | 465                                   | 786                          |
| 72                            | 11,025   | 0.129                | 1,250                          | 465                                   | 786                          |
| 73                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 74                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 75                            | 11,025   | 0.129                | 1,407                          | 465                                   | 942                          |
| 76                            | 11,025   | 0.129                | 2,188                          | 465                                   | 1,723                        |
| 77                            | 11,025   | 0.129                | 2,188                          | 465                                   | 1,723                        |
| 78                            | 11,025   | 0.131                | 2,221                          | 471                                   | 1,750                        |
| 79                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 80                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 81                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 82                            | 11,025   | 0.131                | 1,269                          | 471                                   | 798                          |
| 83                            | 11,025   | 0.131                | 1,269                          | 471                                   | 798                          |
| 84                            | 11,025   | 0.131                | 1,269                          | 471                                   | 798                          |
| 85                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 86                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 87                            | 11,025   | 0.131                | 1,428                          | 471                                   | 957                          |
| 88                            | 11,025   | 0.131                | 2,221                          | 471                                   | 1,750                        |
| 89                            | 11,025   | 0.131                | 2,221                          | 471                                   | 1,750                        |

| Monthly Payment Period | Estimated Electricity Generated (kWh) <sup>1</sup> | Price per kWh | Estimated Gross Revenue | Estimated Expenses <sup>2</sup> | Estimated Net Revenue |
|------------------------|--|---------------|-------------------------|---------------------------------|-----------------------|
| 90                     | 11,025   | 0.134         | 2,254                   | 478                             | 1,776                 |
| 91                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 92                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 93                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 94                     | 11,025   | 0.134         | 1,288                   | 478                             | 810                   |
| 95                     | 11,025   | 0.134         | 1,288                   | 478                             | 810                   |
| 96                     | 11,025   | 0.134         | 1,288                   | 478                             | 810                   |
| 97                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 98                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 99                     | 11,025   | 0.134         | 1,449                   | 478                             | 971                   |
| 100                    | 11,025   | 0.134         | 2,254                   | 478                             | 1,776                 |
| 101                    | 11,025   | 0.134         | 2,254                   | 478                             | 1,776                 |
| 102                    | 11,025   | 0.137         | 2,287                   | 484                             | 1,803                 |
| 103                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 104                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 105                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 106                    | 11,025   | 0.137         | 1,307                   | 484                             | 823                   |
| 107                    | 11,025   | 0.137         | 1,307                   | 484                             | 823                   |
| 108                    | 11,025   | 0.137         | 1,307                   | 484                             | 823                   |
| 109                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 110                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 112                    | 11,025   | 0.137         | 1,471                   | 484                             | 986                   |
| 113                    | 11,025   | 0.137         | 2,287                   | 484                             | 1,803                 |
| 114                    | 11,025   | 0.137         | 2,287                   | 484                             | 1,803                 |
| 115                    | 11,025   | 0.140         | 2,322                   | 491                             | 1,831                 |
| 116                    | 11,025   | 0.140         | 1,492                   | 491                             | 1,002                 |
| 117                    | 11,025   | 0.140         | 1,492                   | 491                             | 1,002                 |

### The Loan and the Notes

The Loan is repayable in monthly installments and may be prepaid without penalty. The payments due at the end of each monthly payment period are set such that, if the actual amount of power generated by the Project and the actual expenses were equal to the estimated amounts, the Borrower's Debt Service Coverage Ratio would be 1.15. Debt Service Coverage Ratio is equal to the Borrower's net revenue after operating costs over a given period, divided by the payments due under its Loan Obligations over the same period.

Under the payment provisions applicable to the Loan, payments will not be made in the same amount each month but will fluctuate from month to month. This fluctuation is based on the projected power output of the Project—and thus, the projected revenues—from month to month. Power output is likely to be greatest during the summer months and least during the winter months. In addition, overall power output is expected to decline over the life of the Project due to the tendency of PV panels to lose efficiency over time.

The Notes will have a term and payment schedule that correspond to the term and payment schedule of the Loan. Payments on the Notes will be dependent on our receipt of corresponding payments on the Loan, and each payment on the Notes will be equal to the corresponding payment on the Loan. The Notes will bear interest at the annual rate 5.50%. Although the amount of each monthly payment will vary, if paid in full on a timely basis, the Notes will generate a rate of return equal to 5.50% over their 117-month term. When our management fee is factored in, your actual rate of return will be 4.50%. This percentage is based on the assumption that all payments on the Notes are promptly withdrawn from your FBO account or reinvested in other Notes; cash left in your FBO account will result in higher management fees and, as a result, lower rates of return. See “About Mosaic’s Business—How the Investment Platform Operates—MSI Fees.”

Payments due on the Loan and corresponding payments on the Notes following each monthly payment period are set forth on the table set forth below. Each holder of a Note will be entitled to a pro rata portion of the amount set forth under the column labeled “Corresponding Note Payment,” less the applicable management fee. In the event we receive a payment on the Loan before the Notes have been issued, the corresponding payment on the Notes will be eliminated from the payment schedule, and the aggregate amount of Notes offered hereby will be reduced by an amount equal to the principal repaid by the Borrower.

#### Note Payment Schedule

| <b>Pmt. No.</b> | <b>Est. Available Cash Flow</b> | <b>Contractually Required Loan Payment</b> | <b>Est. Loan Interest</b> | <b>Est. Loan Principal</b> | <b>Remaining Loan Principal Balance</b> | <b>Corresponding Note Payment</b> | <b>Note Payment Net of Management Fee<sup>1</sup></b> |
|-----------------|---------------------------------|--|---------------------------|----------------------------|---|-----------------------------------|---|
| 1               | 3,397                           | 2,954                                      | 697                       | 2,257                      | 149,865                                 | 2,954                             | 2,827   |
| 2               | 3,397                           | 2,954                                      | 687                       | 2,267                      | 147,598                                 | 2,954                             | 2,829   |
| 3               | 3,397                           | 2,954                                      | 676                       | 2,278                      | 145,320                                 | 2,954                             | 2,831   |
| 4               | 5,487                           | 4,772                                      | 666                       | 4,105                      | 141,215                                 | 4,772                             | 4,650   |
| 5               | 5,487                           | 4,772                                      | 647                       | 4,124                      | 137,090                                 | 4,772                             | 4,654   |
| 6               | 5,492                           | 4,776                                      | 628                       | 4,148                      | 132,942                                 | 4,776                             | 4,662   |
| 7               | 3,399                           | 2,956                                      | 609                       | 2,346                      | 130,596                                 | 2,956                             | 2,845   |
| 8               | 3,399                           | 2,956                                      | 599                       | 2,357                      | 128,239                                 | 2,956                             | 2,847   |
| 9               | 3,399                           | 2,956                                      | 588                       | 2,368                      | 125,871                                 | 2,956                             | 2,849   |
| 10              | 2,980                           | 2,592                                      | 577                       | 2,015                      | 123,856                                 | 2,592                             | 2,487   |
| 11              | 2,980                           | 2,592                                      | 568                       | 2,024                      | 121,832                                 | 2,592                             | 2,488   |
| 12              | 2,980                           | 2,592                                      | 558                       | 2,033                      | 119,799                                 | 2,592                             | 2,490   |
| 13              | 3,399                           | 2,956                                      | 549                       | 2,407                      | 117,392                                 | 2,956                             | 2,856   |
| 14              | 3,399                           | 2,956                                      | 538                       | 2,418                      | 114,975                                 | 2,956                             | 2,858   |
| 15              | 3,399                           | 2,956                                      | 527                       | 2,429                      | 112,546                                 | 2,956                             | 2,860   |
| 16              | 5,492                           | 4,776                                      | 516                       | 4,261                      | 108,285                                 | 4,776                             | 4,683   |
| 17              | 5,492                           | 4,776                                      | 496                       | 4,280                      | 104,005                                 | 4,776                             | 4,686   |
| 18              | 5,499                           | 4,782                                      | 477                       | 4,305                      | 99,700                                  | 4,782                             | 4,695   |
| 19              | 3,401                           | 2,958                                      | 457                       | 2,501                      | 97,199                                  | 2,958                             | 2,875   |
| 20              | 3,401                           | 2,958                                      | 446                       | 2,512                      | 94,687                                  | 2,958                             | 2,877   |

<sup>1</sup> Assumes that all payments on the Notes are withdrawn from each investor’s FBO account or reinvested in other Notes. In the event such payments are kept in the FBO account, they will result in higher management fees, and the Note payments net of management fee will be correspondingly reduced.

| <b>Pmt. No.</b> | <b>Est. Available Cash Flow</b> | <b>Contractually Required Loan Payment</b> | <b>Est. Loan Interest</b> | <b>Est. Loan Principal</b> | <b>Remaining Loan Principal Balance</b> | <b>Corresponding Note Payment</b> | <b>Note Payment Net of Management Fee<sup>1</sup></b> |
|-----------------|---------------------------------|--|---------------------------|----------------------------|---|-----------------------------------|---|
| 21              | 3,401                           | 2,958                                      | 434                       | 2,524                      | 92,164                                  | 2,958                             | 2,879   |
| 22              | 2,981                           | 2,593                                      | 422                       | 2,170                      | 89,993                                  | 2,593                             | 2,516   |
| 23              | 2,981                           | 2,593                                      | 412                       | 2,180                      | 87,813                                  | 2,593                             | 2,518   |
| 24              | 2,981                           | 2,593                                      | 402                       | 2,190                      | 85,623                                  | 2,593                             | 2,520   |
| 25              | 3,401                           | 2,958                                      | 392                       | 2,565                      | 83,057                                  | 2,958                             | 2,886   |
| 26              | 3,401                           | 2,958                                      | 381                       | 2,577                      | 80,480                                  | 2,958                             | 2,888   |
| 27              | 3,401                           | 2,958                                      | 369                       | 2,589                      | 77,892                                  | 2,958                             | 2,891   |
| 28              | 5,499                           | 4,782                                      | 357                       | 4,425                      | 73,467                                  | 4,782                             | 4,717   |
| 29              | 5,499                           | 4,782                                      | 337                       | 4,445                      | 69,022                                  | 4,782                             | 4,721   |
| 30              | 1,647                           | 1,432                                      | 316                       | 1,116                      | 67,906                                  | 1,432                             | 1,375   |
| 31              | 899                             | 782  | 311                       | 471                        | 67,435                                  | 782                               | 726   |
| 32              | 899                             | 782  | 309                       | 473                        | 66,962                                  | 782                               | 726   |
| 33              | 899                             | 782  | 307                       | 475                        | 66,487                                  | 782                               | 726   |
| 34              | 750                             | 652  | 305                       | 347                        | 66,139                                  | 652                               | 597   |
| 35              | 750                             | 652  | 303                       | 349                        | 65,790                                  | 652                               | 597   |
| 36              | 750                             | 652  | 302                       | 351                        | 65,440                                  | 652                               | 597   |
| 37              | 899                             | 782  | 300                       | 482                        | 64,958                                  | 782                               | 728   |
| 38              | 899                             | 782  | 298                       | 484                        | 64,473                                  | 782                               | 728   |
| 39              | 899                             | 782  | 296                       | 487                        | 63,987                                  | 782                               | 728   |
| 40              | 1,647                           | 1,432                                      | 293                       | 1,139                      | 62,848                                  | 1,432                             | 1,379   |
| 41              | 1,647                           | 1,432                                      | 288                       | 1,144                      | 61,703                                  | 1,432                             | 1,380   |
| 42              | 1,672                           | 1,454                                      | 283                       | 1,171                      | 60,532                                  | 1,454                             | 1,403   |
| 43              | 913                             | 794  | 277                       | 517                        | 60,015                                  | 794                               | 744   |
| 44              | 913                             | 794  | 275                       | 519                        | 59,496                                  | 794                               | 744   |
| 45              | 913                             | 794  | 273                       | 522                        | 58,974                                  | 794                               | 745   |
| 46              | 762                             | 662  | 270                       | 392                        | 58,582                                  | 662                               | 613   |
| 47              | 762                             | 662  | 269                       | 394                        | 58,188                                  | 662                               | 614   |
| 48              | 762                             | 662  | 267                       | 396                        | 57,793                                  | 662                               | 614   |
| 49              | 913                             | 794  | 265                       | 529                        | 57,263                                  | 794                               | 746   |
| 50              | 913                             | 794  | 262                       | 532                        | 56,732                                  | 794                               | 747   |
| 51              | 913                             | 794  | 260                       | 534                        | 56,197                                  | 794                               | 747   |
| 52              | 1,672                           | 1,454                                      | 258                       | 1,197                      | 55,001                                  | 1,454                             | 1,407   |
| 53              | 1,672                           | 1,454                                      | 252                       | 1,202                      | 53,799                                  | 1,454                             | 1,408   |
| 54              | 1,698                           | 1,476                                      | 247                       | 1,230                      | 52,569                                  | 1,476                             | 1,431   |
| 55              | 928                             | 807  | 241                       | 566                        | 52,003                                  | 807                               | 763   |
| 56              | 928                             | 807  | 238                       | 568                        | 51,435                                  | 807                               | 763   |
| 57              | 928                             | 807  | 236                       | 571                        | 50,864                                  | 807                               | 764   |
| 58              | 774                             | 673  | 233                       | 440                        | 50,424                                  | 673                               | 630   |

| <b>Pmt. No.</b> | <b>Est. Available Cash Flow</b> | <b>Contractually Required Loan Payment</b> | <b>Est. Loan Interest</b> | <b>Est. Loan Principal</b> | <b>Remaining Loan Principal Balance</b> | <b>Corresponding Note Payment</b> | <b>Note Payment Net of Management Fee<sup>1</sup></b> |
|-----------------|---------------------------------|--|---------------------------|----------------------------|---|-----------------------------------|---|
| 59              | 774                             | 673  | 231                       | 442                        | 49,983                                  | 673                               | 631   |
| 60              | 774                             | 673  | 229                       | 444                        | 49,539                                  | 673                               | 631   |
| 61              | 928                             | 807  | 227                       | 580                        | 48,960                                  | 807                               | 765   |
| 62              | 928                             | 807  | 224                       | 582                        | 48,377                                  | 807                               | 766   |
| 63              | 928                             | 807  | 222                       | 585                        | 47,792                                  | 807                               | 766   |
| 64              | 1,698                           | 1,476                                      | 219                       | 1,257                      | 46,535                                  | 1,476                             | 1,436   |
| 65              | 1,698                           | 1,476                                      | 213                       | 1,263                      | 45,272                                  | 1,476                             | 1,438   |
| 66              | 1,723                           | 1,499                                      | 208                       | 1,291                      | 43,981                                  | 1,499                             | 1,461   |
| 67              | 942                             | 819  | 202                       | 618                        | 43,363                                  | 819                               | 783   |
| 68              | 942                             | 819  | 199                       | 620                        | 42,743                                  | 819                               | 783   |
| 69              | 942                             | 819  | 196                       | 623                        | 42,120                                  | 819                               | 784   |
| 70              | 786                             | 683  | 193                       | 490                        | 41,629                                  | 683                               | 648   |
| 71              | 786                             | 683  | 191                       | 492                        | 41,137                                  | 683                               | 649   |
| 72              | 786                             | 683  | 189                       | 495                        | 40,642                                  | 683                               | 649   |
| 73              | 942                             | 819  | 186                       | 633                        | 40,009                                  | 819                               | 785   |
| 74              | 942                             | 819  | 183                       | 636                        | 39,374                                  | 819                               | 786   |
| 75              | 942                             | 819  | 180                       | 639                        | 38,735                                  | 819                               | 786   |
| 76              | 1,723                           | 1,499                                      | 178                       | 1,321                      | 37,414                                  | 1,499                             | 1,467   |
| 77              | 1,723                           | 1,499                                      | 171                       | 1,327                      | 36,086                                  | 1,499                             | 1,468   |
| 78              | 1,750                           | 1,522                                      | 165                       | 1,356                      | 34,730                                  | 1,522                             | 1,492   |
| 79              | 957                             | 832  | 159                       | 673                        | 34,057                                  | 832                               | 803   |
| 80              | 957                             | 832  | 156                       | 676                        | 33,382                                  | 832                               | 803   |
| 81              | 957                             | 832  | 153                       | 679                        | 32,703                                  | 832                               | 804   |
| 82              | 798                             | 694  | 150                       | 544                        | 32,159                                  | 694                               | 667   |
| 83              | 798                             | 694  | 147                       | 547                        | 31,612                                  | 694                               | 667   |
| 84              | 798                             | 694  | 145                       | 549                        | 31,063                                  | 694                               | 668   |
| 85              | 957                             | 832  | 142                       | 690                        | 30,374                                  | 832                               | 806   |
| 86              | 957                             | 832  | 139                       | 693                        | 29,681                                  | 832                               | 807   |
| 87              | 957                             | 832  | 136                       | 696                        | 28,985                                  | 832                               | 807   |
| 88              | 1,750                           | 1,522                                      | 133                       | 1,389                      | 27,596                                  | 1,522                             | 1,497   |
| 89              | 1,750                           | 1,522                                      | 126                       | 1,395                      | 26,201                                  | 1,522                             | 1,499   |
| 90              | 1,776                           | 1,545                                      | 120                       | 1,425                      | 24,776                                  | 1,545                             | 1,523   |
| 91              | 971                             | 845  | 114                       | 731                        | 24,045                                  | 845                               | 824   |
| 92              | 971                             | 845  | 110                       | 735                        | 23,311                                  | 845                               | 825   |
| 93              | 971                             | 845  | 107                       | 738                        | 22,573                                  | 845                               | 825   |
| 94              | 810                             | 705  | 103                       | 601                        | 21,971                                  | 705                               | 686   |
| 95              | 810                             | 705  | 101                       | 604                        | 21,367                                  | 705                               | 686   |
| 96              | 810                             | 705  | 98                        | 607                        | 20,761                                  | 705                               | 687   |

| <b>Pmt. No.</b> | <b>Est. Available Cash Flow</b> | <b>Contractually Required Loan Payment</b> | <b>Est. Loan Interest</b> | <b>Est. Loan Principal</b> | <b>Remaining Loan Principal Balance</b> | <b>Corresponding Note Payment</b> | <b>Note Payment Net of Management Fee<sup>1</sup></b> |
|-----------------|---------------------------------|--|---------------------------|----------------------------|---|-----------------------------------|---|
| 97              | 971                             | 845  | 95                        | 750                        | 20,011                                  | 845                               | 827   |
| 98              | 971                             | 845  | 92                        | 753                        | 19,258                                  | 845                               | 828   |
| 99              | 971                             | 845  | 88                        | 756                        | 18,501                                  | 845                               | 829   |
| 100             | 1,776                           | 1,545                                      | 85                        | 1,460                      | 17,041                                  | 1,545                             | 1,529   |
| 101             | 1,776                           | 1,545                                      | 78                        | 1,467                      | 15,575                                  | 1,545                             | 1,531   |
| 102             | 1,803                           | 1,568                                      | 71                        | 1,497                      | 14,078                                  | 1,568                             | 1,555   |
| 103             | 986                             | 858  | 65                        | 793                        | 13,285                                  | 858                               | 846   |
| 104             | 986                             | 858  | 61                        | 797                        | 12,488                                  | 858                               | 847   |
| 105             | 986                             | 858  | 57                        | 801                        | 11,687                                  | 858                               | 847   |
| 106             | 823                             | 716  | 54                        | 662                        | 11,025                                  | 716                               | 706   |
| 107             | 823                             | 716  | 51                        | 665                        | 10,360                                  | 716                               | 707   |
| 108             | 823                             | 716  | 47                        | 668                        | 9,691                                   | 716                               | 707   |
| 109             | 986                             | 858  | 44                        | 813                        | 8,878                                   | 858                               | 850   |
| 110             | 986                             | 858  | 41                        | 817                        | 8,061                                   | 858                               | 850   |
| 111             | 986                             | 858  | 37                        | 821                        | 7,240                                   | 858                               | 851   |
| 112             | 1,803                           | 1,568                                      | 33                        | 1,535                      | 5,705                                   | 1,568                             | 1,562   |
| 113             | 1,803                           | 1,568                                      | 26                        | 1,542                      | 4,163                                   | 1,568                             | 1,564   |
| 114             | 1,831                           | 1,592                                      | 19                        | 1,573                      | 2,590                                   | 1,592                             | 1,589   |
| 115             | 1,002                           | 871  | 12                        | 859                        | 1,730                                   | 871                               | 869   |
| 116             | 1,002                           | 871  | 8                         | 863                        | 867                                     | 871                               | 870   |
| 117             | 1,002                           | 871  | 4                         | 867                        | 0                                       | 871                               | 870   |

If any of the scheduled payments is late, the Borrower will be liable for interest on that payment at the rate of 5.50% per annum, in addition to any late payment fee.

### ***Risk Scoring for the Loan***

In negotiating the interest rate applicable to the Loan, Mosaic evaluated the Loan as follows, in light of its underwriting criteria:

Repayment risk – 2 (lower risk): The Solar Customer has equity of approximately \$11 million, and the Borrower is generating cash through a PPA and Incentive Payments;

Technical risk – 3 (lower risk): The Project is using solar panel technology with strong warranties that extend beyond the loan tenor; some solar panel and inverter manufacturers have recently gone out of business, and more solar manufacturers are likely to continue to go out of business as the industry consolidates.

Collateral value – 2 (medium risk): The solar panels may be costly to remove following any potential foreclosure and they have uncertain resale value.

Regulatory/environmental risk – 1 (lower risk): The Project is located in a geographic region close to an earthquake fault, but the Borrower has an insurance policy that covers earthquake risk.

### **Total risk score: 8 (lower risk)**

As the Project is scored as lower risk, we were willing to offer an interest rate ranging from the prime lending rate to prime + 2.25%. At the time the terms of the Loan were negotiated, the prime lending rate was 3.25%.

### **About the Borrower**

The Borrower is a California limited liability company that is 100%-owned by the Owner. The Borrower was formed for the sole purpose of holding title to the assets and liabilities related to the Project and has no separate business operations or operating history. The Owner is an investment group formed to provide capital for solar projects. As of September 30, 2012, the Borrower had \$647,627 in total assets, \$595,462 in liabilities, and \$52,165 in equity. The foregoing assets and liabilities do not include the proceeds of the Loan or the payment obligations thereunder. The foregoing financial information has been provided by the Borrower, and we have played no role in its preparation and have not taken any steps to verify it.

### **About the Solar Customer**

The Solar Customer, Ronald McDonald House Charities of San Diego, Inc. ("RMH"), a non-profit corporation, operates the Ronald McDonald House in San Diego, California, a "home away from home" to families with children being treated for serious conditions at local hospitals. At Ronald McDonald House, families have daytime access to a range of resources including napping rooms, computer access, shower facilities, and play spaces for children.

RMH is an independent, self-funded non-profit organization whose financial support comes largely from the San Diego community. The organization depends on several strong strategic relationships for funding. McDonald's Corporation and owner/operators of local McDonald's restaurants fund about 10% of RMH's annual operating budget. The remaining 90% of RMH's annual operating income comes from contributions by individuals, corporations and foundations. RMH is governed by a local board of trustees made up of members of the medical community, business and civic leaders, parent/volunteers, and McDonald's representatives.

Financial information about RMH is available online at [www.charitynavigator.org](http://www.charitynavigator.org). Mosaic played no role in the preparation of this information, has not verified the information and neither approves nor adopts the information.

### **Material Agreements Relating to the Project**

#### ***Loan and Security Agreement***

The Loan is represented by a Loan and Security Agreement between Mosaic and the Borrower (the "Loan Agreement"). Under the Loan Agreement, the Borrower is obligated to repay the Loan in monthly installments over 120 months. The Loan bears interest at the rate of 5.50% per annum. Each payment on the Loan is equal to a fixed percentage of Borrower's estimated net revenues under the PPA, as described under "The Loan and the Notes." The Loan may be prepaid at any time without penalty. The Loan is secured by a first lien security interest in all of the assets owned by the Borrower related to the Project, including the solar power generating equipment and the rights under the lease or PPA (the "Collateral").

The Loan Agreement requires the Borrower to (i) furnish Mosaic with annual and quarterly financial statements, (ii) make timely payment of all taxes, and (iii) maintain insurance on the power generating equipment, among other things. The Borrower is prohibited from (a) disposing of the Collateral, (b) effecting a change in control, (c) acquiring another business, or (d) incurring other indebtedness or liens on the Collateral (other than as expressly permitted under the Loan Agreement), among other things.

Upon an Event of Default (as defined in the Loan Agreement), all unpaid principal and interest under the Loan becomes immediately due and payable. An "Event of Default" includes (i) the Borrower's failure to make a

required payment when due, (ii) a material adverse change relating to the Collateral, the Borrower's business or the prospect of repayment of any portion of the Borrower's Loan Obligations, (iii) certain legal actions against the Borrower or the Collateral, (iv) insolvency proceedings involving the Borrower, (v) certain legal judgments against the Borrower, or (vi) a change in control involving the Borrower.

***Power Purchase Agreement***

The PPA was entered into in August 2009 and has a 20-year term commencing in June 2010, when the Project began commercial operation. Under the PPA, the Solar Customer has agreed to purchase all of the electricity output generated by the Project, at a fixed price per kWh subject to annual percentage increases. The Borrower will retain ownership of the solar power installation and will be responsible for all its operating expenses. The PPA has a term of 20 years.

