Tesla, Inc.
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-34756

Tesla, Inc.

(Exact name of registrant as specified in its charter)

Delaware	91-2197729
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3500 Deer Creek Road	
Palo Alto, California	94304
(Address of principal executive offices)	(Zip Code)

(650) 681-5000

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) during the preceding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of October 26, 2018, there were 171,732,775 shares of the registrant’s common stock outstanding.

TESLA, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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Forward-Looking Statements

The discussions in this Quarterly Report on Form 10-Q contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, profitability, expected cost reductions, capital adequacy, expectations regarding demand and acceptance for our technologies, growth opportunities and trends in the market in which we operate, prospects and plans and objectives of management. The words “anticipates”, “believes”, “could”, “estimates”, “expects”, “intends”, “may”, “plans”, “projects”, “v
and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tesla, Inc.

Consolidated Balance Sheets

(in thousands, except for par values)

(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 2,967,504	$ 3,367,914
Restricted cash	158,627	155,323
Accounts receivable, net	1,155,001	515,381
Inventory	3,314,127	2,263,537
Prepaid expenses and other current assets	325,232	268,365
Total current assets	7,920,491	6,570,520
Operating lease vehicles, net	2,186,137	4,116,604
Solar energy systems, leased and to be leased, net	6,301,537	6,347,490
Property, plant and equipment, net	11,246,295	10,027,522
Intangible assets, net	291,476	361,502
Goodwill	65,226	60,237
MyPower customer notes receivable, net of current portion	422,897	456,652
Restricted cash, net of current portion	396,835	441,722
Other assets	431,819	273,123
Total assets	$ 29,262,713	$ 28,655,372
Liabilities		
Current liabilities		
Accounts payable	$ 3,596,984	$ 2,390,250
Accrued liabilities and other	1,990,095	1,731,366
Deferred revenue	570,920	1,015,253
Resale value guarantees	604,949	787,333
Customer deposits	905,838	853,919
Current portion of long-term debt and capital leases	2,106,538	796,549
Current portion of promissory notes issued to related parties	—	100,000
Total current liabilities	9,775,324	7,674,670
Long-term debt and capital leases, net of current portion	9,669,879	9,415,700
Solar bonds issued to related parties, net of current portion	100	100
Convertible senior notes issued to related parties	2,634	2,519
Deferred revenue, net of current portion	950,126	1,177,799
Resale value guarantees, net of current portion	455,762	2,309,222

Other long-term liabilities	2,555,319	2,442,970
Total liabilities	23,409,144	23,022,980
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in subsidiaries	551,264	397,734
Convertible senior notes (Note 10)	—	70
Equity		
Stockholders' equity		
Preferred stock; $0.001 par value; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock; $0.001 par value; 2,000,000 shares authorized; 171,578 and 168,797 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	171	169
Additional paid-in capital	9,957,711	9,178,024
Accumulated other comprehensive income	8,271	33,348
Accumulated deficit	(5,457,315)	(4,974,299)
Total stockholders' equity	4,508,838	4,237,242
Noncontrolling interests in subsidiaries	793,467	997,346
Total liabilities and equity	$ 29,262,713	$ 28,655,372

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

Tesla, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Automotive sales	$ 5,878,305	$ 2,076,731	$11,558,051	$6,125,643
Automotive leasing	220,461	286,158	633,713	813,462
Total automotive revenues	6,098,766	2,362,889	12,191,764	6,939,105
Energy generation and storage	399,317	317,505	1,183,747	818,229
Services and other	326,330	304,281	859,884	713,168
Total revenues	6,824,413	2,984,675	14,235,395	8,470,502
Cost of revenues				
Automotive sales	4,405,919	1,755,622	9,027,055	4,724,849
Automotive leasing	119,283	175,224	360,694	516,683
Total automotive cost of revenues	4,525,202	1,930,846	9,387,749	5,241,532
Energy generation and storage	330,554	237,288	1,036,190	592,823
Services and other	444,992	367,401	1,212,335	852,446
Total cost of revenues	5,300,748	2,535,535	11,636,274	6,686,801
Gross profit	1,523,665	449,140	2,599,121	1,783,701
Operating expenses				
Research and development	350,848	331,622	1,104,073	1,023,436
Selling, general and administrative	729,876	652,998	2,167,039	1,794,210
Restructuring and other	26,184	—	129,618	—
Total operating expenses	1,106,908	984,620	3,400,730	2,817,646
Income (loss) from operations	416,757	(535,480)	(801,609)	(1,033,945)
Interest income	6,907	5,531	17,185	13,406
Interest expense	(175,220)	(117,109)	(488,348)	(324,896)
Other income (expense), net	22,876	(24,390)	36,071	(83,696)
Income (loss) before income taxes	271,320	(671,448)	(1,236,701)	(1,429,131)
Provision (benefit) for income taxes	16,647	(285)	35,959	40,640
Net income (loss)	254,673	(671,163)	(1,272,660)	(1,469,771)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(56,843)	(51,787)	(157,086)	(183,721)
Net income (loss) attributable to common stockholders	$ 311,516	$ (619,376)	$(1,115,574)	$(1,286,050)
Net income (loss) per share of common stock attributable to common stockholders, basic and diluted				

Basic	$ 1.82	$ (3.70)	$(6.56)	$(7.80)
Diluted	$ 1.75	$ (3.70)	$(6.56)	$(7.80)
Weighted average shares used in computing net income (loss) per share of common stock				
Basic	170,893	167,294	170,019	164,897
Diluted	178,196	167,294	170,019	164,897

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

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Tesla, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) attributable to common stockholders	$ 311,516	$ (619,376)	$(1,115,574)	$(1,286,050)
Unrealized gains (losses) on derivatives:				
Reclassification adjustment for net losses into net loss	—	—	—	(5,570)
Foreign currency translation adjustment	(10,274)	10,289	(25,077)	50,560
Other comprehensive (loss) income	(10,274)	10,289	(25,077)	44,990
Comprehensive income (loss)	$ 301,242	$ (609,087)	$(1,140,651)	$(1,241,060)

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

Tesla, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net loss	$(1,272,660)	$(1,469,771)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization and impairment	1,404,313	1,166,397
Stock-based compensation	543,711	332,412
Amortization of debt discounts and issuance costs	120,873	60,613
Inventory write-downs	59,983	98,347
Loss on disposals of fixed assets	132,639	59,640
Foreign currency transaction (gains) losses	(6,614)	35,933
Loss related to SolarCity acquisition	—	29,796
Non-cash interest and other operating activities	22,093	109,729
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	(686,103)	(105,643)
Inventory	(1,110,611)	(418,970)
Operating lease vehicles	(188,948)	(1,083,140)
Prepaid expenses and other current assets	(31,532)	(123,832)
MyPower customer notes receivable and other assets	(62,399)	17,628
Accounts payable and accrued liabilities	1,627,997	170,326
Deferred revenue	284,417	329,007
Customer deposits	9,471	3,815
Resale value guarantee	(57,621)	141,044
Other long-term liabilities	74,232	76,124
Net cash provided by (used in) operating activities	863,241	(570,545)
Cash Flows from Investing Activities		
Purchases of property and equipment excluding capital leases, net of sales	(1,775,746)	(2,628,126)
Purchases of solar energy systems, leased and to be leased	(189,869)	(547,085)
Business combinations, net of cash acquired	(6,804)	(109,147)
Net cash used in investing activities	(1,972,419)	(3,284,358)
Cash Flows from Financing Activities		
Proceeds from issuances of common stock in public offerings	—	400,175
Proceeds from issuances of convertible and other debt	3,946,575	5,401,158
Repayments of convertible and other debt	(3,111,242)	(2,442,942)
Repayments of borrowings under Solar Bonds issued to related parties	(100,000)	(165,000)
Collateralized lease (repayments) borrowings	(343,086)	416,427
Proceeds from exercises of stock options and other stock issuances	219,945	239,328
Principal payments on capital leases	(105,867)	(69,496)

Common stock and debt issuance costs	(5,121)	(50,530)
Purchases of convertible note hedges	—	(204,102)
Proceeds from settlement of convertible note hedges	—	269,456
Proceeds from issuances of warrants	—	52,883
Payments for settlements of warrants	(5)	(219,538)
Proceeds from investments by noncontrolling interests in subsidiaries	366,297	691,918
Distributions paid to noncontrolling interests in subsidiaries	(178,511)	(190,715)
Payments for buy-outs of noncontrolling interests in subsidiaries	(2,921)	—
Net cash provided by financing activities	686,064	4,129,022
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(18,879)	35,736
Net (decrease) increase in cash and cash equivalents and restricted cash	(441,993)	309,855
Cash and cash equivalents and restricted cash, beginning of period	3,964,959	3,766,900
Cash and cash equivalents and restricted cash, end of period	$3,522,966	$4,076,755
Supplemental Non-Cash Investing and Financing Activities		
Acquisitions of property and equipment included in liabilities	$305,974	$1,021,692
Estimated fair value of facilities under build-to-suit leases	$61,709	$173,075

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

Tesla, Inc.

Notes to Consolidated Financial Statements

(unaudited)

Note 1 – Overview

Tesla, Inc. (“Tesla”, the “Company”, “we”, “us” or “our”) was incorporated in the State of Delaware on July 1, 2003. We desig develop, manufacture and sell high-performance fully electric vehicles and design, manufacture, install and sell solar energy generation and energy storage products. Our Chief Executive Officer, as the chief operating decision maker (“CODM”), organizes the Company, manages resource allocations and measures performance among two operating and reportable segments: (i) automotive and (ii) energy generation and storage.

Note 2 – Summary of Significant Accounting Policies

Unaudited Interim Financial Statements

The consolidated balance sheet as of September 30, 2018, the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017 and the consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, as well as other information disclosed in the accompanying notes, are unaudited. The consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated financial statements as of that date. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the annual consolidated financial statements and the accompanying notes contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

The interim consolidated financial statements and the accompanying notes have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or for any other future years or interim periods.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation in the consolidated financial statements and the accompanying notes as a result of the adoption of the Accounting Standards Update (“ASU”) 2016-18, Statement of Cash Flows: Restricted Cash.

Revenue Recognition

Adoption of new accounting standards

ASU 2014-09, Revenue - Revenue from Contracts with Customers. On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue

standard”) using the modified retrospective method. As a policy election, the new revenue standard was applied only to contracts that were not substantially completed as of the date of adoption. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the January 1, 2018 opening balance of accumulated deficit. The prior period consolidated financial statements have not been retrospectively adjusted and continue to be reported under the accounting standards in effect for those periods.

A majority of our automotive sales revenue is recognized when control transfers upon delivery to customers. For certain vehicle sales where revenue was previously deferred either as an in-substance operating lease, such as certain vehicle sales to customers or leasing partners with a resale value guarantee, we now recognize revenue when the vehicles are shipped as a sale with a right of return. As a result, the corresponding operating lease asset, deferred revenue, and resale value guarantee balances as of December 31, 2017, were reclassified to accumulated deficit as part of our adoption entry. Furthermore, the warranty liability related to such vehicles has been accrued as a result of the change from in-substance operating leases to vehicle sales. Prepayments on contracts that can be cancelled without significant penalties, such as vehicle maintenance plans, have been reclassified from deferred revenue to customer deposits. Refer to the Automotive Revenue and Automotive Leasing Revenue sections below for further discussion of the impact on various categories of vehicle sales.

Following the adoption of the new revenue standard, the revenue recognition for our other sales arrangements, including sales of solar energy systems, energy storage products, services, and sales of used vehicles, remained consistent with our historical revenue recognition policy. Under our lease pass-through fund arrangements, we do not have any further performance obligations and therefore reclassified all investment tax credit (“ITC”) deferred revenue as of December 31, 2017, to accumulated deficit as part of our adoption entry. The corresponding effects of the changes to lease pass-through fund arrangements are also reflected in our non-controlling interests in subsidiaries. Additionally, we have considered the impact from any new revenue arrangements in the current year that would have been accounted for differently under ASC 605, Revenue Recognition, as an adjustment from adoption of the new revenue standard.

Accordingly, the cumulative effect of the changes made to our consolidated January 1, 2018 consolidated balance sheet for the adoption of the new revenue standard was as follows (in thousands):

	Balances at December 31, 2017	Adjustments from Adoption of New Revenue Standard	Balances at January 1, 2018
Assets			
Inventory	$2,263,537	$(27,009)	$2,236,528
Prepaid expenses and other current assets	268,365	51,735	320,100
Operating lease vehicles, net	4,116,604	(1,808,932)	2,307,672
Other assets	273,123	68,355	341,478
Liabilities			
Accrued liabilities and other	1,731,366	74,487	1,805,853
Deferred revenue	1,015,253	(436,737)	578,516
Resale value guarantees	787,333	(295,909)	491,424
Customer deposits	853,919	56,081	910,000
Deferred revenue, net of current portion	1,177,799	(429,771)	748,028
Resale value guarantees, net of current portion	2,309,222	(1,346,179)	963,043
Other long-term liabilities	2,442,970	104,767	2,547,737
Redeemable noncontrolling interests in subsidiaries	397,734	8,101	405,835
Equity			
Accumulated other comprehensive income	33,348	15,221	48,569
Accumulated deficit	(4,974,299)	623,172	(4,351,127)
Noncontrolling interests in subsidiaries	997,346	(89,084)	908,262

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated balance sheet was as follows (in thousands):

	September 30, 2018		
	As Reported	Balances Without Adoption of New Revenue Standard	Effect of Change Higher / (Lower)
Assets			
Accounts receivable	$1,155,001	$1,099,914	$55,087
Inventory	3,314,127	3,431,185	(117,058)
Prepaid expenses and other current assets	325,232	247,056	78,176
Operating lease vehicles, net	2,186,137	4,177,710	(1,991,573)
Other assets	431,819	321,847	109,972
Liabilities			
Accrued liabilities and other	1,990,095	1,896,319	93,776
Deferred revenue	570,920	1,080,243	(509,323)
Resale value guarantees	604,949	978,515	(373,566)
Customer deposits	905,838	850,229	55,609
Deferred revenue, net of current portion	950,126	1,387,829	(437,703)
Resale value guarantees, net of current portion	455,762	2,016,861	(1,561,099)
Other long-term liabilities	2,555,319	2,441,543	113,776
Redeemable noncontrolling interests in subsidiaries	551,264	544,315	6,949
Equity			
Accumulated other comprehensive gain	8,271	13,875	(5,604)
Accumulated deficit	(5,457,315)	(6,287,370)	830,055
Noncontrolling interests in subsidiaries	793,467	871,733	(78,266)

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated statement of operations and consolidated statement of comprehensive loss was as follows (in thousands):

Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
As Reported	Balances Without	Effect of Change Higher /	As Reported	Balances Without Adoption of	Effect of Change Higher /

		Adoption of New Revenue Standard	(Lower)		New Revenue Standard	(Lower)
Revenues						
Automotive sales	$5,878,305	$5,399,316	$478,989	$11,558,051	$10,414,408	$1,143,643
Automotive leasing	220,461	469,837	(249,376)	633,713	1,237,239	(603,526)
Energy generation and storage	399,317	408,205	(8,888)	1,183,747	1,163,935	19,812
Cost of revenues						
Automotive sales	4,405,919	4,076,044	329,875	9,027,055	8,231,328	795,727
Automotive leasing	119,283	307,957	(188,674)	360,694	811,671	(450,977)
Provision (benefit) for income taxes	16,647	16,984	(337)	35,959	37,329	(1,370)
Net income (loss)	254,673	174,812	79,861	(1,272,660)	(1,489,209)	216,549
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(56,843)	(62,138)	5,295	(157,086)	(166,752)	9,666
Net income (loss) attributable to common stockholders	311,516	236,950	74,566	(1,115,574)	(1,322,457)	206,883
Foreign currency translation adjustment	(10,274)	(4,968)	(5,306)	(25,077)	(4,252)	(20,825)
Comprehensive income (loss)	301,242	231,982	69,260	(1,140,651)	(1,280,279)	139,628

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated statement of cash flows for the nine months ended September 30, 2018 was an increase in collateralized lease repayments of $304.4 million, from a net financing cash outflow of $38.7 million to a net financing cash outflow of $343.1 million as presented, with an offsetting increase to cash outflows from operations. Additionally, the adjustments to the consolidated balance sheet, consolidated statement of operations and consolidated statement of comprehensive income (loss) identified above would have corresponding impacts within the operating section of the consolidated statement of cash flows.

Automotive Revenue

Automotive Sales without Resale Value Guarantee

Automotive revenue includes revenues related to deliveries of new vehicles, and specific other features and services that meet the definition of a performance obligation under the new revenue standard, including internet connectivity, access to our Supercharger network and future over-the-air software updates. We recognize revenue on automotive sales upon delivery to the customer, which is when the control of a vehicle transfers. Payments are typically received at the point control transfers or in accordance with payment terms customary to the business. Other features and services such as connectivity, Supercharger, and over-the-air software updates are provisioned upon control transfer of a vehicle and recognized over time on a straight-line basis as we have a stand-ready obligation to deliver such services to the customer. We recognize revenue related to these other features and services over the performance period, which is generally the expected ownership life of the vehicle or the eight-year life of the vehicle. Revenue related to Autopilot and full self-driving features is recognized when functionality is delivered to the customer. For our obligations related to automotive sales, we estimate standalone selling price by considering costs used to develop and deliver the service, third-party pricing of similar options and other information that may be available.

At the time of revenue recognition, we reduce the transaction price and record a reserve against revenue for estimated variable consideration related to future product returns. Such estimates are based on historical experience and are immaterial in all periods presented. In addition, any fees that are paid or payable by us to a customer’s lender when we arrange the financing are recognized as an offset against automotive sales revenue.

Costs to obtain a contract mainly relate to commissions paid to our sales personnel for the sale of vehicles. Commissions are not paid on other obligations such as connectivity, access to our Supercharger network, and over-the-air software updates. As our contract costs related to automotive sales are typically fulfilled within one year, the costs to obtain a contract are expensed as incurred. We have elected to recognize the cost for freight and shipping when control over vehicles, parts, or accessories have transferred to the customer as an expense in cost of revenues. Our policy is to exclude taxes collected from a customer from the transaction price of automotive contracts.

Automotive Sales with Resale Value Guarantee

We offer resale value guarantees or similar buy-back terms to certain customers who purchase vehicles and who finance their vehicles through one of our specified commercial banking partners. We also offer resale value guarantees in connection with automotive sales to certain leasing partners. Currently, both programs are available only in certain international markets. Under these programs, we receive full payment for the vehicle sales price at the time of delivery and our counterparty has the option of selling their vehicle back to us during the guarantee period, which currently is generally at the end of the term of the applicable loan or financing program, for a pre-determined resale value.

With the exception of two programs which are discussed within the Automotive Leasing section, we now recognize revenue when control transfers upon delivery to customers in accordance with the new revenue standard as a sale with a right of return as we do not believe the customer has a significant economic incentive to exercise the resale value

guarantee provided to them. The process to determine whether there is a significant economic incentive includes a comparison of a vehicle's estimated market value at the time the option is exercisable with the guaranteed resale value to determine the customer's economic incentive to exercise. The performance obligations and the pattern of recognizing automotive sales with resale value guarantees are consistent with automotive sales without resale value guarantees with the exception of our estimate for sales return reserve. Sales return reserves for automotive sales with resale value guarantees are estimated based on historical experience plus consideration for expected future market values. The two programs that are still being recorded as operating leases are discussed in further detail below in Vehicle Sales to Leasing Partners with a Resale Value Guarantee and a Buyback Option and Vehicle Sales to Customers with a Resale Value Guarantee where Exercise is Probable.

Prior to the adoption of the new revenue standard, all transactions with resale value guarantees were recorded as operating leases. The amount of sale proceeds equal to the resale value guarantee was deferred until the guarantee expired or was exercised. For certain transactions that were considered interest bearing collateralized borrowings as required under ASC 840, Leases, we also accrued interest expense based on our borrowing rate. The remaining sale proceeds were deferred and recognized on a straight-line basis over the stated guarantee period to automotive leasing revenue. The guarantee period expired at the earlier of the end of the guarantee period or the pay-off of the initial loan. We capitalized the cost of these vehicles on the consolidated balance sheet as operating lease vehicles, net, and depreciated their value, less estimated residual value, to cost of automotive leasing revenue over the same period.

In cases where our counterparty retained ownership of the vehicle at the end of the guarantee period, the resale value guarantee liability and any remaining deferred revenue balances related to the vehicle were settled to automotive leasing revenue, and the net book value of the leased vehicle was expensed to cost of automotive leasing revenue. If our counterparty returned the vehicle to us during the guarantee period, we purchased the vehicle from our counterparty in an amount equal to the resale value guarantee and settled any remaining deferred balances to automotive leasing revenue, and we reclassified the net book value of the vehicle on the consolidated balance sheet to used vehicle inventory.

Deferred revenue activity related to the access to our Supercharger network, internet connectivity, Autopilot and over-the-air software updates on automotive sales with and without resale value guarantee consisted of the following (in thousands):

	Nine Months Ended September 30, 2018
Deferred revenue on automotive sales with and without resale value guarantee— beginning of period	$ 475,919
Additions	365,376
Net changes in liability for pre-existing contracts	(7,930)
Revenue recognized	(71,874)
Deferred revenue on automotive sales with and without resale value guarantee— end of period	$ 761,491

Deferred revenue is equivalent to the total transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, as of September 30, 2018. From the deferred revenue balance as of January 1, 2018, revenue recognized during the nine months ended September 30, 2018 was $60.3 million. Of the total deferred revenue on automotive sales with and without resale value guarantees, we expect to recognize $284.7 million of revenue in the next 12 months. The remaining balance will be recognized over the performance period as discussed above in Automotive Sales without Resale Value Guarantee.

Automotive Regulatory Credits

California and certain other states have laws in place requiring vehicle manufacturers to ensure that a portion of the vehicles delivered for sale in that state during each model year are zero-emission vehicles. These laws and regulations provide that a manufacturer of zero-emission vehicles may earn regulatory credits (“ZEV credits”) and may sell excess credits to other manufacturers who apply such credits to comply with these regulatory requirements. Similar regulations exist at the federal level that require compliance related to greenhouse gas (“GHG”) emissions and also allow for the sale of excess credits by one manufacturer to other manufacturers. As a manufacturer solely of zero-emission vehicles, we have earned emission credits, such as ZEV and GHG credits, on our vehicles, and we expect to continue to earn these credits in the future. We enter into contractual agreements with third-parties to purchase our regulatory credits. Payments for regulatory credits are typically received at the point control transfers to the customer, or in accordance with payment terms customary to the business.

We recognize revenue on the sale of regulatory credits at the time control of the regulatory credits is transferred to the purchasing party as automotive revenue in the consolidated statement of operations. We had no deferred revenue related to sales of automotive regulatory credits as of September 30, 2018 or December 31, 2017.

Automotive Leasing Revenue

Automotive leasing revenue includes revenue recognized under lease accounting guidance for our direct leasing programs as well as the two programs with resale value guarantees which continue to qualify for operating lease treatment. Prior to the adoption of the new revenue standard, all programs with resale value guarantees were accounted for as operating leases.

Direct Vehicle Leasing Program

We offer vehicle leasing programs in certain locations in North America and Europe. Qualifying customers are permitted to lease a vehicle directly from Tesla for up to 48 months. Currently, the program is only offered to qualified customers in North America. At the end of the lease term, customers have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. We account for these leasing transactions as operating leases. We record leasing revenues to automotive leasing revenue on a straight-line basis over the contractual term, and we record the depreciation of these vehicles to cost of automotive leasing revenue. For the three and nine months ended September 30, 2018, we recognized $101.1 million and $270.4 million, respectively, of leasing revenues, and $57.2 million and $155.9 million, respectively, for the same periods in 2017. As of September 30, 2018 and December 31, 2017, we had deferred $110.0 million and $96.6 million, respectively, of lease-related upfront payments, which will be recognized on a straight-line basis over the contractual terms of the individual leases.

We capitalize shipping costs and initial direct costs such as the incremental cost of contract administration, referral fees and sales commissions from the origination of automotive lease agreements as an element of operating lease vehicles, net, and subsequently amortize these costs over the term of the related lease agreement. Our policy is to exclude taxes collected from a customer from the transaction price of automotive contracts.

Vehicle Sales to Leasing Partners with a Resale Value Guarantee and a Buyback Option

We offer buyback options in connection with automotive sales with resale value guarantees with certain leasing partner sales in the United States. These transactions entail a transfer of leases, which we have originated with an end-customer, to our leasing partner. As control of the vehicles has not been transferred in accordance with the new revenue standard, these transactions continue to be accounted for as interest bearing collateralized borrowings in accordance with ASC 840, Leases. We have not sold any vehicles under this program in the United States since the second half of 2017 and all current period activity relates to the exercise or cancellation of active transactions. Under this program, cash is received for the full price of the vehicle and the collateralized borrowing value is generally recorded within resale value guarantees and the customer upfront deposit is recorded within deferred revenue. We amortize the deferred revenue amount to automotive leasing revenue on a straight-line basis over the option period and accrue interest expense based on our borrowing rate. We capitalize vehicles under this program to operating lease vehicles, net, on the consolidated balance sheet, and we record depreciation from these vehicles to cost of automotive leasing revenue during the period the vehicle is under a lease arrangement. Cash received for these vehicles, net of revenue recognized during the period, is classified as collateralized lease (repayments) borrowings within cash flows from financing activities in the consolidated statement of cash flows.

At the end of the lease term, we settle our liability in cash by either purchasing the vehicle from the leasing partner for the buyback option amount or paying a shortfall to the option amount the leasing partner may realize on the sale of the vehicle. Any remaining balances within deferred revenue and resale value guarantee will be settled to automotive leasing revenue. In cases where the leasing partner retains ownership of the vehicle after the end of our option period, we expense the net value of the leased vehicle to cost of automotive leasing revenue. The maximum amount we could be required to pay under this program, should we decide to repurchase all vehicles, was $629.1 million as of September 30, 2018, including $388.8 million within a 12-month period. As of September 30, 2018, we had $734.3 million of such borrowings recorded in resale value guarantees and $112.5 million recorded in deferred revenue liability. For the three and nine months ended September 30, 2018, we recognized $89.4 million and $256.6 million, respectively, of leasing revenue related to this program.

On a quarterly basis, we assess the estimated market values of vehicles under our buyback options program to determine if we have sustained a loss on any of these contracts. As we accumulate more data related to the buyback values of our vehicles or as market conditions change, there may be material changes to their estimated values, although we have not experienced any material losses during any period to date.

Vehicle Sales to Customers with a Resale Value Guarantee where Exercise is Probable

For certain international programs where we have offered resale value guarantees to certain customers who purchased vehicles and where we expect the customer has a significant economic incentive to exercise the resale value guarantee provided to them, we continue to recognize these transactions as operating leases. The process to determine whether there is a significant economic incentive includes a comparison of a vehicle’s estimated market value at the time the option is exercisable with the guaranteed resale value to determine the customer’s economic incentive to exercise. We have not sold any vehicles under this program since the first half of 2017 and all current period activity relates to the exercise or cancellation of active transactions. The amount of sale proceeds equal to the resale value guarantee is deferred until the guarantee expires or is exercised. The remaining sale proceeds are deferred and recognized on a straight-line basis over the stated guarantee period to automotive leasing revenue. The guarantee period expires at the

earlier of the end of the guarantee period or the pay-off of the initial loan. We capitalize the cost of these vehicles on the consolidated balance sheet as operating lease vehicles, net, and depreciate their value, less salvage value, to cost of automotive leasing revenue over the same period.

In cases where a customer retains ownership of a vehicle at the end of the guarantee period, the resale value guarantee liability and any remaining deferred revenue balances related to the vehicle are settled to automotive leasing revenue, and the net book value of the leased vehicle is expensed to cost of automotive leasing revenue. If a customer returns the vehicle to us during the guarantee period, we purchase the vehicle from the customer in an amount equal to the resale value guarantee and settle any remaining deferred balances to automotive leasing revenue, and we reclassify the net book value of the vehicle on the consolidated balance sheet to used vehicle inventory. As of September 30, 2018, $162.3 million of the guarantees were exercisable by customers within the next 12 months. For the three and nine months ended September 30, 2018, we recognized $30.0 million and $106.7 million, respectively, of leasing revenue related to this program.

Energy Generation and Storage Segment

Energy Generation and Storage Sales

Energy generation and storage revenues consists of the sale of solar energy and storage systems to residential, small commercial, and large commercial and utility grade customers. Sales of solar energy systems to residential and small scale commercial customers consists of the engineering, design, and installation of the system. Post installation, residential and small scale commercial customers receive a proprietary monitoring system that captures and displays historical energy generation data. Residential and small scale commercial customers pay the full purchase price of the solar energy system up-front. Revenue for the design and installation obligation is recognized when control transfers, which is when we install a solar energy system and the system passes inspection by the utility or the authority having jurisdiction. Revenue for the monitoring service is recognized ratably as a stand-ready obligation over the warranty period of the solar energy system. Sales of energy storage systems to residential and small scale commercial customers consists of the installation of the energy storage system and revenue is recognized when control transfers, which is when the product has been delivered or, if we are performing installation, when installed and accepted by the customer. Payment for such storage systems are made upon invoice or in accordance with payment terms customary to the business.

For large commercial and utility grade solar energy and storage sales which consist of the engineering, design, and installation of the system, customers make milestone payments that are consistent with contract specific phases of a project. Revenue from such contracts is recognized over time using percentage of completion method based on cost incurred as a percentage of total estimated contract costs. Certain large scale commercial and utility grade solar energy and storage sales also include operations and maintenance service which are negotiated with the design and installation contracts and are thus considered to be a combined contract with the design and installation service. For certain large commercial and utility grade solar and storage systems where percentage of completion method does not apply, revenue is recognized when control transfers, which is when the product has been delivered to the customer for storage systems and when the project has received permission to operate from the utility for solar energy systems. Operations and maintenance service revenue is recognized ratably over the respective contract term. Customer payments for such services are usually paid annually or quarterly in advance.

In instances where there are multiple performance obligations in a single contract, we allocate the consideration to the various obligations in the contract based on the relative standalone selling price method. Standalone selling prices are estimated based on estimated costs plus margin or using market data for comparable products. Costs incurred on the sale of residential installations before the solar energy systems are completed are included as work in process within inventory in the consolidated balance sheets. However, any fees that are paid or payable by us to a solar loan lender would be recognized as an offset against revenue. Costs to obtain a contract relate mainly to commissions paid to our sales personnel related to the sale of solar energy and storage systems. As our contract costs related to energy generation and storage sales are typically fulfilled within one year, the costs to obtain a contract are expensed as incurred.

As part of our energy generation and storage contracts, we may provide the customer with performance guarantees that warrant that the underlying energy generation or storage system will meet or exceed the minimum contract energy generation or retention requirements. In certain instances, we may receive a bonus payment if the system performs above a specified level. Conversely, if an energy generation or storage system does not meet the performance guarantee requirements, we may be required to pay liquidated damages. Other forms of variable consideration related to our large commercial and utility grade energy generation and storage contracts include variable customer payments that will be made based on our energy market participation activities. Such guarantees and variable customer payments represent a form of variable consideration and are estimated at contract inception at their most likely amount and updated at the end of each reporting period as additional performance data becomes available. Such estimates are

included in the transaction price only to the extent that it is probable a significant reversal of revenue will not occur.

We record as deferred revenue any amounts that are collected from customers related to fees charged for prepayments and remote monitoring service and operations and maintenance service, which is recognized as revenue ratably over the respective customer contract term. As of September 30, 2018 and December 31, 2017, deferred revenue related to such customer payments amounted to $158.7 million and $124.0 million, respectively. Revenue recognized from the deferred revenue balance as of January 1, 2018, was $36.7 million for the nine months ended September 30, 2018. We have elected the practical expedient to omit disclosure of the amount of the transaction price allocated to remaining performance obligations for energy generation and storage sales with an original expected contract length of one year or less. As of September 30, 2018, total transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied for contracts with an original expected length of more than one year was $115.7 million. Of this amount, we expect to recognize $6.7 million in the next 12 months and the remaining over a period up to 30 years.

Energy Generation and Storage Leasing

For revenue arrangements where we are the lessor under operating lease agreements for solar energy systems, including energy storage products, we record lease revenue from minimum lease payments, including upfront rebates and incentives earned from such systems, on a straight-line basis over the life of the lease term, assuming all other revenue recognition criteria have been met. For incentives that are earned based on the amount of electricity generated by the system, we record revenue as the amounts are earned. The difference between the payments received and the revenue recognized is recorded as deferred revenue on the consolidated balance sheet.

For solar energy systems where customers purchase electricity from us under power purchase agreements ("PPA"), we have determined that these agreements should be accounted for as operating leases pursuant to ASC 840. Revenue is recognized based on the amount of electricity delivered at rates specified under the contracts, assuming all other revenue recognition criteria are met.

We record as deferred revenue any amounts that are collected from customers, including lease prepayments, in excess of revenue recognized and operations and maintenance service, which is recognized as revenue ratably over the respective customer contract term. As of September 30, 2018 and December 31, 2017, deferred revenue related to such customer payments amounted to $212.2 million and $206.8 million, respectively. Deferred revenue also includes the portion of rebates and incentives received from utility companies and various local and state government agencies, which are recognized as revenue over the lease term. As of September 30, 2018 and December 31, 2017, deferred revenue from rebates and incentives amounted to $31.8 million and $27.2 million, respectively.

We capitalize initial direct costs from the origination of solar energy system leases or power purchase agreements, which include the incremental cost of contract administration, referral fees and sales commissions, as an element of solar energy systems, leased and to be leased, net, and subsequently amortize these costs over the term of the related lease or power purchase agreement.

Services and Other Revenue

Services and other revenue consists of repair and maintenance services, service plans, merchandise, sales of used Tesla vehicles, sales of electric vehicle components to other manufacturers and sales of non-Tesla vehicle trade-ins. There were no significant changes to the timing or amount of revenue recognition as a result of our adoption of the new revenue standard.

Revenues related to repair and maintenance services are recognized over time as services are provided and extended service plans are recognized over the performance period of the service contract as the obligation represents a stand-ready obligation to the customer. We sell used vehicles, services, service plans, vehicle components and merchandise separately and thus use standalone selling prices as the basis for revenue allocation to the extent that these items are sold in transactions with other performance obligations. Payment for used vehicles, services, and merchandise are typically received at the point when control transfers to the customer or in accordance with payment terms customary to the business. Payments received for prepaid plans are refundable upon customer cancellation of the related contracts and are included within customer deposits on the consolidated balance sheet. Deferred revenue related to services and other revenue was immaterial as of September 30, 2018 and December 31, 2017.

Revenue by source

The following table disaggregates our revenue by major source (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Automotive sales without resale value guarantee	$	5,297,024	$	10,177,777
Automotive sales with resale value guarantee		391,784		1,056,438
Automotive regulatory credits		189,497		323,836
Energy generation and storage sales		259,288		791,785
Services and other		326,330		859,884
Total revenues from sales and services		6,463,923		13,209,720
Automotive leasing		220,461		633,713
Energy generation and storage leasing		140,029		391,962
Total revenues	$	6,824,413	$	14,235,395

Income Taxes

There are transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. As of September 30, 2018 and December 31, 2017, the aggregate balances of our gross unrecognized tax benefits were $254.3 million and $198.7 million, respectively, of which $245.1 million and $191.0 million, respectively, would not give rise to changes in our effective tax rate since these tax benefits would increase a deferred tax asset that is currently fully offset by a valuation allowance.

On July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to share-based compensation. This opinion reversed the prior decision of the United States Tax Court.

On August 7, 2018, the Ninth Circuit Court of Appeals, on its own motion, withdrew its July 24, 2018 opinion in Altera Corp. v. Commissioner. We do not expect this matter to have an impact on our consolidated financial statements.

Net Income (Loss) per Share of Common Stock Attributable to Common Stockholders

Basic net income (loss) per share of common stock attributable to common stockholders is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average shares of common stock outstanding for the period. Potentially dilutive shares, which are based on the weighted-average shares of common stock underlying outstanding stock-based awards, warrants and convertible senior notes using the treasury stock method or the if-converted method, as applicable, are included when calculating diluted net income (loss) per share of common stock attributable to common stockholders when their effect is dilutive. Since we expect to settle in cash the principal outstanding under the 0.25% Convertible Senior Notes due in 2019, the 1.25% Convertible Senior Notes due in 2021 and the 2.375% Convertible Senior Notes due in 2022, we use the treasury stock method when calculating their potential dilutive effect, if any. Furthermore, in connection with the offerings of our bond hedges, we entered into convertible note hedges (see Note 10, Convertible and Long-Term Debt Obligations). However, our convertible note hedges are not included when calculating potentially dilutive shares since their effect is always anti-dilutive.

The following table presents the computation of basic and diluted net income (loss) per share of common stock attributable to common stockholders (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) per share of common stock attributable to common stockholders, basic				
Net income (loss) attributable to common stockholders	$ 311,516	$ (619,376)	$(1,115,574)	$(1,286,050)
Weighted average shares used in computing net income (loss)	170,893	167,294	170,019	164,897

per share of common stock, basic				
Net income (loss) per share of common stock attributable to common stockholders, basic	$ 1.82	$ (3.70)	$(6.56)	$(7.80)
Net income (loss) per share of common stock attributable to common stockholders, diluted				
Net income (loss) attributable to common stockholders	$ 311,516	$ (619,376)	$(1,115,574)	$(1,286,050)
Weighted average shares used in computing net income (loss) per share of common stock, basic	170,893	167,294	170,019	164,897
Add:				
Stock-based awards	7,044	—	—	—
Warrants	259	—	—	—
Weighted average shares used in computing net income (loss) per share of common stock, diluted	178,196	167,294	170,019	164,897
Net income (loss) per share of common stock attributable to common stockholders, diluted	$ 1.75	$ (3.70)	$(6.56)	$(7.80)

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The following table presents the potentially dilutive shares that were excluded from the computation of diluted net income (loss) per share of common stock attributable to common stockholders, because their effect was anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based awards	3,269,543	8,855,128	9,868,777	10,177,154
Convertible senior notes	1,498,987	1,908,572	1,501,726	2,559,810
Warrants	—	414,996	276,703	658,345

Restricted Cash and Deposits

We maintain certain cash balances restricted as to withdrawal or use. Our restricted cash is comprised primarily of cash as collateral for our sales to lease partners with a resale value guarantee, letters of credit, real estate leases, insurance policies, credit card borrowing facilities and certain operating leases. In addition, restricted cash includes cash received from certain fund investors that have not been released for use by us and cash held to service certain payments under various secured debt facilities. The following table totals cash and cash equivalents and restricted cash as reported on the consolidated balance sheets; the sums are presented on the consolidated statements of cash flows (in thousands):

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	$ 2,967,504	$ 3,367,914	$ 3,530,030	$ 3,393,216
Restricted cash	158,627	155,323	138,181	105,519
Restricted cash, net of current portion	396,835	441,722	408,544	268,165
Total as presented in the consolidated statements of cash flows	$ 3,522,966	$ 3,964,959	$ 4,076,755	$ 3,766,900

Concentration of Risk

Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents, restricted cash, accounts receivable and interest rate swaps. Our cash balances are primarily invested in money market funds or on deposit at high credit quality financial institutions in the U.S. These deposits are typically in excess of insured limits. As of September 30, 2018, one entity represented 10% or more of our total accounts receivable balance. As of December 31, 2017, no entity represented 10% of our total accounts receivable balance. The risk of concentration for our interest rate swaps is mitigated by transacting with several highly-rated multinational banks.

Supply Risk

We are dependent on our suppliers, the majority of which are single source suppliers, and the inability of these suppliers to deliver necessary components of our products in a timely manner at prices, quality levels and volumes acceptable to us, or our inability to efficiently manage these components from these suppliers, could have a material adverse effect on our business, prospects, financial condition and operating results.

Warranties

We provide a manufacturer's warranty on all new and used vehicles, production powertrain components and systems and energy storage products we sell. In addition, we also provide a warranty on the installation and components of the solar energy systems we sell for periods typically between 10 to 30 years. We accrue a warranty reserve for the products sold by us, which includes our best estimate of the projected costs to repair or replace items under warranties and recalls when identified. These estimates are based on actual claims incurred to date and an estimate of the nature, frequency and costs of future claims. These estimates are inherently uncertain given our relatively short history of sales, and changes to our historical or projected warranty experience may cause material changes to the warranty reserve in the future. The warranty reserve does not include projected warranty costs associated with our vehicles subject to lease accounting and our solar energy systems under lease contracts or power purchase agreements, as the costs to repair these warranty claims are expensed as incurred. The portion of the warranty reserve expected to be incurred within the next 12 months is included within accrued liabilities and other while the remaining balance is included within other long-term liabilities on the consolidated balance sheet. Due to the adoption of the new revenue standard, automotive sales with resale value guarantees that were previously recorded within operating lease assets require a corresponding warranty accrual, which is included in the table below. Warranty expense is recorded as a component of cost of revenues. Accrued warranty activity consisted of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Accrued warranty—beginning of period	$524,009	$343,279	$401,790	$266,655
Warranty costs incurred	(54,089)	(39,481)	(148,374)	(87,881)
Net changes in liability for pre-existing warranties, including expirations and foreign exchange impact	(13,256)	4,768	(23,672)	7,239
Additional warranty accrued from adoption of the new revenue standard	—	—	37,139	—
Provision for warranty	187,805	60,156	377,586	182,709
Accrued warranty—end of period	$644,469	$368,722	$644,469	$368,722

For the three and nine months ended September 30, 2018, warranty costs incurred for vehicles accounted for as operating leases or collateralized debt arrangements were $4.6 million and $17.4 million, respectively, and for the three and nine months ended September 30, 2017, such costs were $10.8 million and $24.3 million, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, to replace the existing revenue recognition criteria for contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, Deferral of the Effective Date, to defer the effective date of ASU No. 2014-09 to interim and annual periods beginning after December 15, 2017. Subsequently, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations, ASU No. 2016-10, Identifying Performance Obligations and Licensing, ASU

No. 2016-11, Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements, to clarify and amend the guidance in ASU No. 2014-09. We adopted the ASUs on January 1, 2018 on a modified retrospective basis through a cumulative adjustment to accumulated deficit. The adoption of the ASUs changed the timing of revenue recognition to be at delivery for certain vehicle sales to customers or leasing partners with a resale value guarantee, which will therefore qualify to be accounted for as sales with a right of return as opposed to the prior accounting as operating leases or collateralized lease borrowings. Upon adoption of the ASUs, we recorded a decrease to our beginning accumulated deficit of $623.2 million including income tax effects, which were immaterial. Refer to the Revenue Recognition section above for details.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. The ASU also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. The ASU is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We currently expect to adopt the ASU on January 1, 2019. We will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. We intend to elect most of the available practical expedients upon adoption. Upon adoption, we expect the consolidated balance sheet to include a right of use asset and liability related to substantially all of our lease arrangements. Further, solar leases and PPAs that commence after January 1, 2019, where we are the lessor and are currently accounted for as leases will no longer meet the definition of a lease with the adoption of this ASU and will instead be accounted for in accordance with ASC 606. We also expect most of our build-to-suit leases to be de-recognized upon adoption as our current build-to-suit leases will no longer qualify for build-to-suit accounting and will instead be recognized as operating leases under ASC 842. Subsequently, in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, and ASU No. 2018-11, Targeted Improvements, to clarify and amend the guidance in ASU No. 2016-02. We are continuing to assess the impact of adopting the ASUs on our financial position, results of operations and related disclosures. We anticipate the effect on the consolidated balance sheet to be material. The ASU is currently expected to have no material impact on the consolidated statement of operations.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASU is modified retrospective. We are currently obtaining an understanding of the ASU and plan to adopt the ASU on January 1, 2020.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, to reduce the diversity in practice with respect to the classification of certain cash receipts and cash payments on the statement of cash flows. The ASU is effective for interim and annual periods beginning after December 15, 2017. Adoption of the ASU is retrospective. We adopted the ASU on January 1, 2018, which did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, which requires entities to present the aggregate changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, the statement of cash flows now presents restricted cash and restricted cash equivalents as a part of the beginning and ending balances of cash and cash equivalents. The ASU is effective for interim and annual periods beginning after December 15, 2017. Adoption of the ASU was retrospective. We adopted the ASU on January 1, 2018, which resulted in restricted cash being combined with unrestricted cash reconciling beginning and ending balances. Refer to the Restricted Cash and Deposits section above for the reconciliation.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business, to clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for interim and annual periods beginning after December 15, 2017. Adoption of the ASU is prospective. We adopted the ASU on January 1, 2018, which we anticipate will result in more transactions being accounted for as asset acquisitions rather than business acquisitions. Adoption of the guidance had no impact on the financial statements for the nine months ended September 30, 2018.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, to simplify the test for goodwill impairment by removing Step 2. An entity will, therefore, perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the

amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform a qualitative assessment to determine if the quantitative impairment test is necessary. The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASU is prospective. We have not yet selected an adoption date, and the ASU is not currently expected to have a material impact on the consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Gains and Losses from the Recognition of Nonfinancial Assets, to clarify the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The ASU is effective for interim and annual periods beginning after December 15, 2017. We adopted the ASU on January 1, 2018 on a modified retrospective basis through a cumulative adjustment to accumulated deficit. Upon adoption of the ASU, we recorded a decrease to our beginning accumulated deficit of $9.4 million.

In May 2017, the FASB issued ASU No. 2017-09, Scope of Modification Accounting, to provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU is effective for interim and annual periods beginning after December 15, 2017. Adoption of the ASU is prospective. We adopted the ASU on January 1, 2018, which did not have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities, to simplify the application of current hedge accounting guidance. The ASU expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Adoption of the ASU is generally modified retrospective. We are currently obtaining an understanding of the ASU and plan to adopt the ASU on January 1, 2019.

In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows entities to record provisional amounts during a measurement period not exceeding one year from the enactment date of the Act. SAB 118 was codified by the FASB as part of ASU No. 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. As of September 30, 2018, we have not made any measurement period adjustments. Such adjustments may be necessary in future periods due to, among other things, the significant complexity of the Act, additional regulatory guidance that may be issued by the Internal Revenue Service ("IRS"), changes to our analysis, interpretations or assumptions or actions that we may take as a result of the Act. We are continuing to gather information to assess the application of the Act and expect to complete our analysis within the prescribed measurement period. We do not expect any adjustments to have a material impact on the consolidated financial statements due to our historical worldwide loss position and the full valuation allowance on our net U.S. deferred tax assets.

In January 2018, the FASB issued ASU No. 2018-01, Land Easement Practical Expedient Transition to Topic 842, to permit an entity to elect a practical expedient to not evaluate land easements under ASC 842 that existed or expired before the entity's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. The ASU is effective for the same periods as ASU No. 2016-02, and the ASU is not currently expected to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract. The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASU is either retrospective or prospective. We are currently obtaining an understanding of the ASU and plan to adopt the ASU prospectively on January 1, 2020.

Note 3 – Intangible Assets

Information regarding our acquired intangible assets was as follows (in thousands):

	September 30, 2018				December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Other	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Other	Net Carrying Amount
Finite-lived intangible assets:								

Developed technology	$152,431	$(35,049)	$1,393	$118,775	$125,889	$(19,317)	$1,847	$108,419
Trade names	45,275	(43,993)	197	1,479	45,275	(10,924)	261	34,612
Favorable contracts and leases, net	112,817	(14,470)	—	98,347	112,817	(8,639)	—	104,178
Other	35,559	(10,541)	831	25,849	34,099	(7,775)	1,137	27,461
Total finite-lived intangible assets	346,082	(104,053)	2,421	244,450	318,080	(46,655)	3,245	274,670
Indefinite-lived intangible assets:								
IPR&D	60,290	—	(13,264)	47,026	86,832	—	—	86,832
Total indefinite-lived intangible assets	60,290	—	(13,264)	47,026	86,832	—	—	86,832
Total intangible assets	$406,372	$(104,053)	$(10,843)	$291,476	$404,912	$(46,655)	$3,245	$361,502

The in-process research and development ("IPR&D"), which we acquired from SolarCity Corporation ("SolarCity"), is accounted for as an indefinite-lived asset until the completion or abandonment of the associated research and development efforts. If the research and development efforts are successfully completed and commercial feasibility is reached, the IPR&D would be amortized over its then estimated useful life. If the research and development efforts are not completed or are abandoned, the IPR&D might be impaired. The fair value of the IPR&D was estimated using the replacement cost method under the cost approach, based on the historical acquisition costs and expenses of the technology adjusted for estimated developer's profit, opportunity cost and obsolescence factor. During the three months ended June 30, 2018, we concluded that a portion of the IPR&D was not commercially feasible, and consequently recognized an abandonment loss of $13.3 million in research and development operating expenses. During the three months ended June 30, 2018, $26.5 million of IPR&D was put into production, and we expect to complete the remaining research and development efforts in the fourth quarter of 2018. The nature of the research and development efforts consists principally of planning, designing and testing the technology for viability in manufacturing solar cells and modules. If commercial feasibility is not achieved for the remaining IPR&D, we would likely look to other alternative technologies.

The costs associated with one of the trade names acquired by us has been fully amortized as we phased out the use of such trade name in our sales and marketing efforts.

Total future amortization expense for intangible assets was estimated as follows (in thousands):

Three months ending December 31, 2018	$8,782
2019	34,722
2020	32,789
2021	32,789
2022	32,789
Thereafter	102,579
Total	$244,450

Note 4 – Fair Value of Financial Instruments

ASC 820, Fair Value Measurements, states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tiered fair value hierarchy, which prioritizes which inputs should be used in measuring fair value, is comprised of: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than quoted prices in active markets that are observable either directly or indirectly and (Level III) unobservable inputs for which there is little or no market data. The fair value hierarchy requires the use of observable market data when available in determining fair value. Our assets and liabilities that were measured at fair value on a recurring basis were as follows (in thousands):

September 30, 2018				December 31, 2017			
Fair Value	Level I	Level II	Level III	Fair Value	Level I	Level II	Level III

Money market funds (cash and cash equivalents & restricted cash)	$1,474,346	$1,474,346	$—	$—	$2,163,459	$2,163,459	$—	$—
Interest rate swaps, net	17,572	—	17,572	—	59	—	59	—
Total	$1,491,918	$1,474,346	$17,572	$—	$2,163,518	$2,163,459	$ 59	$—

All of our money market funds were classified within Level I of the fair value hierarchy because they were valued using quoted prices in active markets. Our interest rate swaps were classified within Level II of the fair value hierarchy because they were valued using alternative pricing sources or models that utilized market observable inputs, including current and forward interest rates. During the nine months ended September 30, 2018, there were no transfers between the levels of the fair value hierarchy.

Interest Rate Swaps

We enter into fixed-for-floating interest rate swap agreements to swap variable interest payments on certain debt for fixed interest payments, as required by certain of our lenders. We do not designate our interest rate swaps as hedging instruments. Accordingly, our interest rate swaps are recorded at fair value on the consolidated balance sheets within other assets or other long-term liabilities, with any changes in their fair values recognized as other income (expense), net, in the consolidated statements of operations and with any cash flows recognized as investing activities in the consolidated statements of cash flows. Our interest rate swaps outstanding were as follows (in thousands):

	September 30, 2018			December 31, 2017		
	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value
Interest rate swaps	$469,707	$ 17,572	$ —	$496,544	$ 5,304	$ 5,245

Our interest rate swaps activity was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross gains	$ 5,401	$ 440	$17,811	$2,989
Gross losses	39	1,641	1,244	12,836

Disclosure of Fair Values

Our financial instruments that are not re-measured at fair value include accounts receivable, MyPower customer notes receivable, rebates receivable, accounts payable, accrued liabilities, customer deposits, convertible senior notes, the 5.30% Senior Notes due in 2025, the participation interest, solar asset-backed notes, solar loan-backed notes, Solar Bonds and long-term debt. The carrying values of these financial instruments other than the convertible senior notes, the 5.30% Senior Notes due in 2025, the participation interest, the solar asset-backed notes, the solar loan-backed notes and automotive asset-backed notes approximate their fair values.

We estimate the fair value of the convertible senior notes and the 5.30% Senior Notes due in 2025 using commonly accepted valuation methodologies and market-based risk measurements that are indirectly observable, such as credit risk (Level II). In addition, we estimate the fair value of the participation interest, the solar asset-backed notes, the solar loan-backed notes and automotive asset-backed notes on rates currently offered for instruments with similar maturities and terms (Level III). The following table presents the estimated fair values and the carrying values (in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible senior notes	$3,851,725	$4,051,562	$3,722,673	$4,488,651

Senior notes	$1,777,948	$1,516,500	$1,775,550	$1,732,500
Participation interest	$18,595	$18,067	$17,545	$17,042
Solar asset-backed notes	$857,721	$875,584	$880,415	$898,145
Solar loan-backed notes	$202,938	$209,236	$236,844	$248,149
Automotive asset-backed notes	$417,462	$418,209	$—	$—

Note 5 – Inventory

Our inventory consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 997,476	$ 821,396
Work in process	358,113	243,181
Finished goods	1,657,339	1,013,909
Service parts	301,199	185,051
Total	$ 3,314,127	$ 2,263,537

Finished goods inventory included vehicles in transit to fulfill customer orders, new vehicles available for immediate sale at our retail and service center locations, used Tesla vehicles and energy storage products. During the third quarter of 2018, we made the decision to utilize some of our fleet cars as service loaners on a long-term basis. As a result, we reclassified $72.8 million of finished goods inventory to property, plant and equipment.

For solar energy systems, leased and to be leased, we commence transferring component parts from inventory to construction in progress, a component of solar energy systems, leased and to be leased, once a lease contract with a customer has been executed and installation has been initiated. Additional costs incurred on the leased systems, including labor and overhead, are recorded within construction in progress.

We write-down inventory for any excess or obsolete inventories or when we believe that the net realizable value of inventories is less than the carrying value. During the three and nine months ended September 30, 2018, we recorded write-downs of $12.4 million and $54.3 million, respectively, in cost of revenues. During the three and nine months ended September 30, 2017, we recorded write-downs of $26.2 million and $93.0 million, respectively, in cost of revenues.

Note 6 – Solar Energy Systems, Leased and To Be Leased, Net

Solar energy systems, leased and to be leased, net, consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Solar energy systems leased to customers	$ 6,363,837	$ 6,009,977
Initial direct costs related to customer solar energy system lease acquisition costs	96,618	74,709
	6,460,455	6,084,686
Less: accumulated depreciation and amortization	(439,040)	(220,110)
	6,021,415	5,864,576
Solar energy systems under construction	118,542	243,847
Solar energy systems to be leased to customers	161,580	239,067
Solar energy systems, leased and to be leased – net (1)	$ 6,301,537	$ 6,347,490

(1) Included in solar energy systems, leased and to be leased, as of September 30, 2018 and December 31, 2017 was $36.0 million and $36.0 million, respectively, related to capital leased assets with an accumulated depreciation and amortization of $3.3 million and $1.9 million, respectively.

Note 7 – Property, Plant and Equipment

Our property, plant and equipment, net, consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Machinery, equipment, vehicles and office furniture	$ 5,950,086	$ 4,251,711
Tooling	1,384,382	1,255,952
Leasehold improvements	943,848	789,751

Land and buildings	3,995,992	2,517,247
Computer equipment, hardware and software	463,190	395,067
Construction in progress	963,136	2,541,588
	13,700,634	11,751,316
Less: Accumulated depreciation and amortization	(2,454,339)	(1,723,794)
Total	$ 11,246,295	$ 10,027,522

Construction in progress is primarily comprised of tooling and equipment related to the manufacturing of our vehicles and a portion of Gigafactory 1 construction. Completed assets are transferred to their respective asset classes, and depreciation begins when an asset is ready for its intended use. Construction in progress also includes certain build-to-suit lease costs incurred at our Buffalo manufacturing facility, referred to as Gigafactory 2. During the nine months ended September 30, 2018, $604.1 million of costs at Gigafactory 1 and $649.5 million of costs at Gigafactory 2 were transferred to land and buildings from construction in progress as assets were placed in service. Interest on outstanding debt is capitalized during periods of significant capital asset construction and amortized over the useful lives of the related assets. During the three and nine months ended September 30, 2018, we capitalized $12.0 million and $46.5 million, respectively, of interest. During the three and nine months ended September 30, 2017, we capitalized $37.3 million and $96.0 million, respectively, of interest.

As of September 30, 2018 and December 31, 2017, the table above included $1.68 billion and $1.63 billion, respectively, of gross build-to-suit lease assets. As of September 30, 2018 and December 31, 2017, the corresponding financing liabilities of $109.0 million and $14.9 million, respectively, were recorded in accrued liabilities and $1.62 billion and $1.67 billion, respectively, were recorded in other long-term liabilities on the consolidated balance sheets.

Depreciation and amortization expense during the three and nine months ended September 30, 2018 was $300.0 million and $797.0 million, respectively. Depreciation and amortization expense during the three and nine months ended September 30, 2017 was $197.5 million and $534.2 million, respectively. Gross property and equipment under capital leases as of September 30, 2018 and December 31, 2017 was $1.40 billion and $688.3 million, respectively. Accumulated depreciation on property and equipment under capital leases as of these dates was $193.7 million and $100.6 million, respectively.

Panasonic has partnered with us on Gigafactory 1 with investments in the production equipment that it uses to manufacture and supply us with battery cells. Under our arrangement with Panasonic, we plan to purchase the full output from their production equipment at negotiated prices. As these terms convey to us the right to use, as defined in ASC 840, Leases, their production equipment, we consider them to be leased assets when production commences. This results in us recording the cost of their production equipment within property, plant and equipment, net, on the consolidated balance sheets with a corresponding liability recorded to long-term debt and capital leases. For all suppliers and partners for which we plan to purchase the full output from their production equipment located at Gigafactory 1, we have applied similar accounting. As of September 30, 2018 and December 31, 2017, we had cumulatively capitalized costs of $1.14 billion and $473.3 million, respectively, on the consolidated balance sheets in relation to the production equipment under our Panasonic arrangement. We had cumulatively capitalized total costs for Gigafactory 1 of $4.47 billion and $3.15 billion as of September 30, 2018 and December 31, 2017, respectively.

Note 8 – Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued warranty reserve, net of current portion	$ 459,398	$ 276,289
Build-to-suit lease liability, net of current portion	1,622,059	1,665,768
Deferred rent expense, net of current portion	57,643	46,820
Financing obligation, net of current portion	53,976	67,929
Liability for receipts from an investor	—	29,713
Sales return reserve, net of current portion	78,387	—
Other noncurrent liabilities	283,856	356,451
Total other long-term liabilities	$ 2,555,319	$ 2,442,970

The liability for receipts from an investor represents the amounts received from the investor under a lease pass-through fund arrangement for the monetization of ITCs for solar energy systems not yet placed in service. Due to the adoption of the new revenue standard, automotive sales with resale value guarantees that are now accounted for as sales with a right of return require a corresponding sales return reserve, which is included in accrued liabilities and other when the reserve is current and other long-term liabilities when the reserve is non-current on the consolidated balance sheets.

Note 9 – Customer Deposits

Customer deposits primarily consisted of cash payments from customers at the time they place an order or reservation for a vehicle or an energy product and any additional payments up to the point of delivery or the completion of installation, including the fair values of any customer trade-in vehicles that are applicable toward a new vehicle purchase. Customer deposit amounts and timing vary depending on the vehicle model, the energy product and the country of delivery. In the case of a vehicle, customer deposits are fully refundable up to the point the vehicle is placed into the production cycle. In the case of an energy generation or storage product, customer deposits are fully refundable prior to the entry into a purchase agreement or in certain cases for a limited time thereafter (in accordance with applicable laws). Customer deposits are included in current liabilities until refunded or until they are applied towards the customer's purchase balance. As of September 30, 2018 and December 31, 2017, we held $905.8 million and $853.9 million, respectively, in customer deposits. Due to the adoption of the new revenue standard, customer deposits now include prepayments on contracts that can be cancelled without significant penalties, such as vehicle maintenance plans, which were previously reported as deferred revenue. As a result, $55.6 million of the increase in the customer deposits balance was from the adoption of the new revenue standard.

Note 10 – Convertible and Long-Term Debt Obligations

The following is a summary of our debt as of September 30, 2018 (in thousands):

	Unpaid Principal Balance	Net Carrying Value		Unused Committed Amount*	Contractual Interest Rates	Contractual Maturity Date
		Current	Long-Term			
Recourse debt:						
0.25% Convertible Senior Notes due in 2019 ("2019 Notes")	$920,000	$901,453	$—	$—	0.25%	March 2019
1.25% Convertible Senior Notes due in 2021 ("2021 Notes")	1,380,000	—	1,228,719	—	1.25%	March 2021
2.375% Convertible Senior Notes due in 2022 ("2022 Notes")	977,500	—	863,771	—	2.375%	March 2022
5.30% Senior Notes due in 2025 ("2025 Notes")	1,800,000	—	1,777,948	—	5.30%	August 2025
Credit Agreement	1,593,000	—	1,593,000	229,173	1% plus LIBOR	June 2020
Vehicle and other Loans	2,425	2,425	—	—	1.8%-7.6%	October 2018 - September 2019
2.75% Convertible Senior Notes due in 2018	230,000	231,687	—	—	2.75%	November 2018
1.625% Convertible Senior Notes due in 2019	566,000	—	535,668	—	1.625%	November 2019
Zero-Coupon Convertible Senior Notes due in 2020	103,000	—	90,427	—	0.0%	December 2020
Solar Bonds	25,283	678	24,841	—	2.6-5.75%	October 2018 - January 2031
Total recourse debt	7,597,208	1,136,243	6,114,374	229,173		
Non-recourse debt:						
Warehouse Agreements	659,388	110,204	549,184	440,612	3.5%	September 2020
Canada Credit Facility	59,227	29,297	29,930	—	3.6%-5.1%	November 2021
Term Loan due in December 2018	181,746	181,452	—	—	5.8%	December 2018
Term Loan due in January 2021	171,719	6,527	164,389	—	5.8%	January 2021
Revolving Aggregation Credit Facility	210,157	—	207,718	389,843	5.0 - 5.4%	December 2019
	31,501	13,281	18,048	—	7.9%	July 2021

Solar Renewable Energy Credit Loan Facility						
Cash equity debt	474,555	10,932	448,938	—	5.3-5.8%	July 2033- January 2035
Solar asset-backed notes	883,806	24,022	833,699	—	4.0 - 7.7%	November 2038- February 2048
Solar loan-backed notes	210,249	9,888	193,050	—	4.8-7.5%	September 2048- September 2049
Automotive asset-backed notes	417,462	311,629	105,833	—	2.3%-4.9%	December 2019 - March 2021
Total non-recourse debt	3,299,810	697,232	2,550,789	830,455		
Total debt	$10,897,018	$1,833,475	$8,665,163	$1,059,628		

The following is a summary of our debt as of December 31, 2017 (in thousands):

	Unpaid Principal Balance	Net Carrying Value Current	Net Carrying Value Long-Term	Unused Committed Amount*	Contractual Interest Rates	Contractual Maturity Date
Recourse debt:						
1.50% Convertible Senior Notes due in 2018 ("2018 Notes")	$5,512	$5,442	$—	$—	1.50%	June 2018
2019 Notes	920,000	—	869,092	—	0.25%	March 2019
2021 Notes	1,380,000	—	1,186,131	—	1.25%	March 2021
2022 Notes	977,500	—	841,973	—	2.375%	March 2022
2025 Notes	1,800,000	—	1,775,550	—	5.30%	August 2025
Credit Agreement	1,109,000	—	1,109,000	729,929	1% plus LIBOR	June 2020
Vehicle and other Loans	16,205	15,944	261	—	1.8% - 7.6%	January 2018-September 2019
2.75% Convertible Senior Notes due in 2018	230,000	222,171	—	—	2.75%	November 2018
1.625% Convertible Senior Notes due in 2019	566,000	—	511,389	—	1.625%	November 2019
Zero-Coupon Convertible Senior Notes due in 2020	103,000	—	86,475	—	0.0%	December 2020
Related Party Promissory Notes due in February 2018	100,000	100,000	—	—	6.5%	February 2018
Solar Bonds	32,016	7,008	24,940	—	2.6% - 5.8%	March 2018-January 2031
Total recourse debt	7,239,233	350,565	6,404,811	729,929		
Non-recourse debt:						
Warehouse Agreements	673,811	195,382	477,867	426,189	3.1%	September 2019
Canada Credit Facility	86,708	31,106	55,603	—	3.6% - 5.1%	November 2021
Term Loan due in December 2018	157,095	156,884	—	19,534	4.8%	December 2018
Term Loan due in January 2021	176,290	5,885	169,352	—	4.9%	January 2021
Revolving Aggregation Credit Facility	161,796	—	158,733	438,204	4.1% - 4.5%	December 2019
Solar Renewable Energy Credit Loan Facility	38,575	15,858	22,774	—	7.3%	July 2021
Cash equity debt	482,133	12,334	454,421	—	5.3% - 5.8%	July 2033-January 2035
Solar asset-backed notes	907,241	23,829	856,586	—		

					4.0% - 7.7%	November 2038-February 2048
Solar loan-backed notes	244,498	8,006	228,838	—	4.8% - 7.5%	September 2048-September 2049
Total non-recourse debt	2,928,147	449,284	2,424,174	883,927		
Total debt	$10,167,380	$799,849	$8,828,985	$1,613,856		

* Unused committed amounts under some of our credit facilities and financing funds are subject to satisfying specified conditions prior to draw-down (such as pledging to our lenders sufficient amounts of qualified receivables, inventories, leased vehicles and our interests in those leases, solar energy systems and the associated customer contracts, our interests in financing funds or various other assets). Upon draw-down of any unused committed amounts, there are no restrictions on use of available funds for general corporate purposes.

Recourse debt refers to debt that is recourse to our general assets. Non-recourse debt refers to debt that is recourse to only specified assets of our subsidiaries. The differences between the unpaid principal balances and the net carrying values are due to convertible senior note conversion features, debt discounts or deferred financing costs. As of September 30, 2018, we were in compliance with all financial debt covenants, which include minimum liquidity and expense-coverage balances and ratios.

2018 Notes, Bond Hedges and Warrant Transactions

During the first quarter of 2018, $5.2 million in aggregate principal amount of the 2018 Notes were converted for $5.2 million in cash and 25,745 shares of our common stock. As a result, we recognized a loss on debt extinguishment of less than $0.1 million.

As of June 30, 2018, the 2018 Notes have been completely settled.

Credit Agreement

In June 2015, we entered into a senior asset-based revolving credit agreement (the “Credit Agreement”) with a syndicate of banks. Borrowed funds bear interest, at our option, at an annual rate of (a) 1% plus LIBOR or (b) the highest of (i) the federal funds rate plus 0.50%, (ii) the lenders’ “prime rate” or (iii) 1% plus LIBOR. The fee for undrawn amounts is 0.25% per annum. The Credit Agreement is secured by certain of our accounts receivable, inventory and equipment. Availability under the Credit Agreement is based on the value of such assets, as reduced by certain reserves.

On May 3, 2018, the Company and its subsidiary Tesla Motors Netherlands B.V. entered into the Ninth Amendment (the “Ninth Amendment”) to the Credit Agreement. The Ninth Amendment amended the Credit Agreement to permit Tesla to include in its discretion: (i) the Fremont Factory facilities in the U.S. borrowing base and/or (ii) vehicles in and in-transit to Belgium in the Dutch borrowing base.

Related Party Promissory Notes

In February 2018, we fully repaid the $17.5 million in aggregate principal amount of 6.50% promissory notes held by SolarCity’s former Chief Executive Officer that matured. On February 14, 2018, our Chief Executive Officer and SolarCity’s former Chief Technology Officer exchanged their $82.5 million (collectively) in aggregate principal amount of 6.50% promissory notes due in February 2018 for 6.50% promissory notes due in August 2018 in the same amounts. These promissory notes were fully repaid in August 2018.

Warehouse Agreements

On February 6, 2018, we repaid $453.6 million of the principal outstanding under the Warehouse Agreements. On August 16, 2018, the Warehouse Agreements were amended to extend the availability period from August 17, 2018 to August 16, 2019 and extend the maturity date from September 2019 to September 2020.

Automotive Asset-backed Notes, Series 2018-A

On February 6, 2018, we transferred receivables related to certain leased vehicles into a special purpose entity (“SPE”) and issued $546.1 million in aggregate principal amount of Automotive Asset-backed Notes, Series 2018-A, backed by these automotive assets to investors. The SPE is wholly owned by us and is consolidated in the financial statements. The proceeds from the issuance, net of discounts and fees, were $543.1 million. The cash flows generated by these automotive assets are used to service the monthly principal and interest payments on the Automotive Asset-backed Notes and satisfy the SPE’s expenses, and any remaining cash is distributed to one of our wholly owned

subsidiaries. We recognize revenue earned from the associated customer lease contracts in accordance with our revenue recognition policy. The SPE's assets and cash flows are not available to our other creditors, and the creditors of the SPE, including the Automotive Asset-backed Note holders, have no recourse to our other assets. A third-party contracted with us to provide administrative and collection services for these automotive assets.

Interest Incurred

The following table presents the interest incurred on our convertible senior notes with cash conversion features, which include the 2018 Notes, the 2019 Notes, the 2021 Notes and the 2022 Notes (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Contractual interest coupon	$ 10,779	$ 10,899	$ 31,915	$ 28,306
Amortization of debt issuance costs	1,677	1,759	4,934	5,274
Amortization of debt discounts	31,367	29,888	91,751	83,852
Total	$ 43,823	$ 42,546	$ 128,600	$ 117,432

Note 11 – Equity Incentive Plans

In 2010, we adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan provides for the granting of stock options, RSUs and stock purchase rights to our employees, directors and consultants. Stock options granted under the 2010 Plan may be either incentive stock options or nonqualified stock options. Incentive stock options may only be granted to our employees. Nonqualified stock options may be granted to our employees, directors and consultants. Generally, our stock options and RSUs vest over up to four years and are exercisable over a maximum period of 10 years from their grant dates. Vesting typically terminates when the employment or consulting relationship ends.

As of September 30, 2018, 10,069,978 shares were reserved and available for issuance under the 2010 Plan.

2018 CEO Performance Award

In March 2018, our stockholders approved the Board of Directors' grant of 20,264,042 stock option awards to our CEO (the "2018 CEO Performance Award"). The 2018 CEO Performance Award consists of 12 vesting tranches with a vesting schedule based entirely on the attainment of both operational milestones (performance conditions) and market conditions, assuming continued employment either as the CEO or as both Executive Chairman and Chief Product Officer and service through each vesting date. Each of the 12 vesting tranches of the 2018 CEO Performance Award will vest upon certification by the Board of Directors that both (i) the market capitalization milestone for such tranche, which begins at $100 billion for the first tranche and increases by increments of $50 billion thereafter, and (ii) any one of the following eight operational milestones focused on revenue or eight operational milestones focused on Adjusted EBITDA have been met for the previous four consecutive fiscal quarters. Adjusted EBITDA is defined as net income (loss) attributable to common stockholders before interest expense, provision (benefit) for income taxes, depreciation and amortization and stock-based compensation.

Total Revenue (in billions)	Adjusted EBITDA (in billions)
$20.0	$1.5
$35.0	$3.0

$55.0	$4.5
$75.0	$6.0
$100.0	$8.0
$125.0	$10.0
$150.0	$12.0
$ 175.0	$14.0

As of September 30, 2018, the following operational milestones were considered probable of achievement:

- Total revenue of $20.0 billion;
- Adjusted EBITDA of $1.5 billion; and
- Adjusted EBITDA of $3.0 billion.

Stock-based compensation expense associated with the 2018 CEO Performance Award is recognized over the longer of the expected achievement period for each pair of market capitalization or operational milestones, beginning at the point in time when the relevant operational milestone is considered probable of being met. If additional operational milestones become probable, stock-based compensation expense will be recorded in the period it becomes probable including cumulative catch-up expense for the service provided since the grant date. The market capitalization milestone period and the valuation of each tranche are determined using a Monte Carlo simulation and is used as the basis for determining the expected achievement period. The probability of meeting an operational milestone is based on a subjective assessment of our future financial projections. Even though no tranches of the 2018

CEO Performance Award vest unless a market capitalization and a matching operational milestone are both achieved, stock-based compensation expense is recognized only when an operational milestone is considered probable of achievement regardless of how much additional market capitalization must be achieved in order for a tranche to vest. At our current market capitalization, even the first tranche of the 2018 CEO Performance Award will not vest unless our market capitalization were to more than double from the current level and stay at that increased level for a sustained period of time. Additionally, stock-based compensation represents a non-cash expense and is recorded as a selling, general, and administrative operating expense on our consolidated statement of operations.

As of September 30, 2018, we had $654.3 million of total unrecognized stock-based compensation expense for the operational milestones that were considered probable of achievement, which will be recognized over a weighted-average period of 3.3 years. As of September 30, 2018, we had unrecognized stock-based compensation expense of $1.51 billion for the operational milestones that were considered not probable of achievement. From March 21, 2018, when the grant was approved by our stockholders, through September 30, 2018, we recorded stock-based compensation expense of $118.6 million related to the 2018 CEO Performance Award. For the three months ended September 30, 2018, we recorded stock-based compensation expense of $56.3 million related to this award.

2014 Performance-Based Stock Option Awards

In 2014, to create incentives for continued long-term success beyond the Model S program and to closely align executive pay with our stockholders' interests in the achievement of significant milestones by us, the Compensation Committee of our Board of Directors granted stock option awards to certain employees (excluding our CEO) to purchase an aggregate of 1,073,000 shares of our common stock. Each award consisted of the following four vesting tranches with the vesting schedule based entirely on the attainment of the future performance milestones, assuming continued employment and service through each vesting date:

- 1/4th of each award vests upon completion of the first Model X production vehicle;
- 1/4th of each award vests upon achieving aggregate production of 100,000 vehicles in a trailing 12-month period;
- 1/4th of each award vests upon completion of the first Model 3 production vehicle; and
- 1/4th of each award vests upon achieving an annualized gross margin of greater than 30% for any three-year period.

As of September 30, 2018, the following performance milestones had been achieved:

- Completion of the first Model X production vehicle;
- Completion of the first Model 3 production vehicle; and
- Aggregate production of 100,000 vehicles in a trailing 12-month period.

We began recognizing stock-based compensation expense as each performance milestone becomes probable of achievement. As of September 30, 2018, we had unrecognized stock-based compensation expense of $11.2 million for the performance milestone that was considered not probable of achievement. For the three and nine months ended September 30, 2018, we did not record any additional stock-based compensation related to these awards. For the three and nine months ended September 30, 2017, we recorded stock-based compensation expense of $0.5 million and $6.8 million, respectively, related to these awards.

2012 CEO Performance Award

In August 2012, our Board of Directors granted 5,274,901 stock option awards to our CEO (the "2012 CEO Performance Award"). The 2012 CEO Performance Award consists of 10 vesting tranches with a vesting schedule based entirely on the attainment of both performance conditions and market conditions, assuming continued employment and service through each vesting date. Each vesting tranche requires a combination of a pre-determined performance milestone and an incremental increase in our market capitalization of $4.00 billion, as compared to our

initial market capitalization of $3.20 billion at the time of grant. As of September 30, 2018, the market capitalization conditions for all of the vesting tranches and the following performance milestones had been achieved:

- Successful completion of the Model X alpha prototype;
- Successful completion of the Model X beta prototype;
- Completion of the first Model X production vehicle;
- Aggregate production of 100,000 vehicles;
- Successful completion of the Model 3 alpha prototype;
- Successful completion of the Model 3 beta prototype;
- Completion of the first Model 3 production vehicle;

- Aggregate production of 200,000 vehicles; and
- Aggregate production of 300,000 vehicles.

We began recognizing stock-based compensation expense as each milestone becomes probable of achievement. As of September 30, 2018, we had unrecognized stock-based compensation expense of $5.7 million for the performance milestone that was considered not probable of achievement. For the three months ended September 30, 2018, we recorded no stock-based compensation expense related to the 2012 CEO Performance Award. For the nine months ended September 30, 2018, we recorded $0.1 million related to this award. For the three and nine months ended September 30, 2017, we recorded stock-based compensation expense of $1.2 million and $4.3 million, respectively, related to this award.

Our CEO earns a base salary that reflects the currently applicable minimum wage requirements under California law, and he is subject to income taxes based on such base salary. However, he has never accepted and currently does not accept his salary.

Summary Stock-Based Compensation Information

The following table summarizes our stock-based compensation expense by line item in the consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Cost of sales	$25,037	$10,166	$59,203	$27,663
Research and development	65,718	51,066	192,762	158,052
Selling, general and administrative	113,973	51,421	287,869	146,697
Restructuring and other	—	—	3,877	—
Total	$204,728	$112,653	$543,711	$332,412

We realized no income tax benefit from stock option exercises in each of the periods presented due to cumulative losses and valuation allowances. As of September 30, 2018, we had $1.53 billion of total unrecognized stock-based compensation expense related to non-performance awards, which will be recognized over a weighted-average period of 2.9 years.

Note 12 – Commitments and Contingencies

Non-Cancellable Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices, manufacturing and warehouse facilities, retail and service locations, equipment, vehicles, solar energy systems and Supercharger sites, throughout the world.

Build-to-Suit Lease Arrangement in Buffalo, New York

We have a build-to-suit lease arrangement with the Research Foundation for the State University of New York (the “SUNY Foundation”) where the SUNY Foundation will construct a solar cell and panel manufacturing facility, referred

to as Gigafactory 2, with our participation in the design and construction, install certain utilities and other improvements and acquire certain manufacturing equipment designated by us to be used in the manufacturing facility. During the three months ended March 31, 2018, we began production at the manufacturing facility, although construction has not been fully completed as of September 30, 2018.

Legal Proceedings

Securities Litigation Relating to SolarCity's Financial Statements and Guidance

On March 28, 2014, a purported stockholder class action was filed in the U.S. District Court for the Northern District of California against SolarCity and two of its officers. The complaint alleges violations of federal securities laws and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity's securities from March 6, 2013 to March 18, 2014. After a series of amendments to the original complaint, the District Court dismissed the amended complaint and entered a judgment in our favor on August 9, 2016. The plaintiffs filed a notice of appeal, and on December 4, 2017, the Court heard oral argument on the appeal. On March 8, 2018, the Court upheld the District Court ruling of dismissal and judgment in our favor. The case is concluded.

Securities Litigation Relating to the SolarCity Acquisition

Between September 1, 2016 and October 5, 2016, seven lawsuits were filed in the Court of Chancery of the State of Delaware by purported stockholders of Tesla challenging our acquisition of SolarCity. Following consolidation, the lawsuit names as defendants the members of Tesla's board of directors and alleges, among other things, that board members breached their fiduciary duties in connection with the acquisition. The complaint asserts both derivative claims and direct claims on behalf of a purported class and seeks, among other relief, unspecified monetary damages, attorneys' fees, and costs. On January 27, 2017, defendants filed a motion to dismiss the operative complaint. Rather than respond to the defendants' motion, the plaintiffs filed an amended complaint. On March 17, 2017, defendants filed a motion to dismiss the amended complaint. On December 13, 2017, the Court heard oral argument on the motion. On March 28, 2018, the Court denied defendants' motion to dismiss. Defendants filed a request for interlocutory appeal, but the Delaware Supreme Court denied that request, electing not to hear an appeal at this early stage of the case. Defendants filed their answer on May 18, 2018. This case will now proceed.

These plaintiffs and others filed parallel actions in the U.S. District Court for the District of Delaware on April 21, 2017. Those actions have been consolidated and are stayed pending the Chancery Court litigation. They include claims for violations of the federal securities laws and breach of fiduciary duties by Tesla's board of directors. That action is stayed pending the Chancery Court litigation.

We believe that claims challenging the SolarCity acquisition are without merit and intend to defend against them vigorously. We are unable to estimate the possible loss or range of loss, if any, associated with these claims.

Securities Litigation Relating to Production of Model 3 Vehicles

On October 10, 2017, a purported stockholder class action was filed in the U.S. District Court for the Northern District of California against Tesla, two of its current officers, and a former officer. The complaint alleges violations of federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of Tesla securities from May 4, 2016 to October 6, 2017. The lawsuit claims that Tesla supposedly made materially false and misleading statements regarding the Company's preparedness to produce Model 3 vehicles. Plaintiffs filed an amended complaint on March 23, 2018, and defendants filed a motion to dismiss on May 25, 2018. The court granted defendant's motion to dismiss with leave to amend. Plaintiffs filed their amended complaint on September 28, 2018. We intend to file a motion to dismiss that complaint as well. We believe that the claims are without merit and intend to defend against this lawsuit vigorously. We are unable to estimate the possible loss or range of loss, if any, associated with this lawsuit.

Litigation Relating to 2018 CEO Performance Award

On June 4, 2018, a purported Tesla stockholder filed a putative class and derivative action in the Delaware Court of Chancery alleging that Tesla's directors breached their fiduciary duties by approving the stock-based compensation plan. The complaint seeks, among other things, monetary damages and rescission or reformation of the stock-based compensation plan. On August 31, 2018, defendants filed a motion to dismiss the complaint. We believe the claims asserted in this lawsuit are without merit and intend to defend against them vigorously.

Securities Litigation related to Potential Going Private Transaction

Between August 10, 2018 and September 6, 2018, nine purported stockholder class actions were filed against Tesla and Elon Musk in connection with Elon Musk's August 7, 2018 Twitter post that he was considering taking Tesla private. All of the suits are now pending in the United States District Court for the Northern District of California. Although the complaints vary in certain respects, they each purport to assert claims for violations of federal securities

laws related to Mr. Musk's statement and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of Tesla's securities. We anticipate that, following the lead plaintiff process, the lead plaintiff will file a consolidated amended complaint. We believe that the claims have no merit and intend to defend against them vigorously. We are unable to estimate the potential loss, or range of loss, associated with these claims.

On October 17 and 25, 2018, derivative lawsuits were filed in Delaware Court of Chancery against Mr. Musk and the members of Tesla's Board in relation to statements made and actions connected to a potential going private transaction. Also on October 25, 2018, a third derivative lawsuit was filed in federal court in Delaware against Mr. Musk and the members of the Board. We believe that the claims have no merit and intend to defend against them vigorously. The Company is unable to estimate the potential loss, or range of loss, associated with these claims.

Settlement with SEC related to Potential Going Private Transaction

On October 16, 2018, the U.S. District Court for the Southern District of New York entered a final judgment approving the terms of a settlement filed with the Court on September 29, 2018, in connection with the actions taken by the U.S. Securities and Exchange Commission (the "SEC") relating to Elon Musk's prior statement that he was considering taking Tesla private. Without

admitting or denying any of the SEC's allegations, and with no restriction on Mr. Musk's ability to serve as an officer or director on the Board (other than as its Chair), we and Mr. Musk agreed, among other things, to pay civil penalties of $20 million each and that we will appoint an independent director as Chair of the Board for at least three years, appoint two additional independent directors to the Board, and further enhance our disclosure controls and other corporate governance-related matters.

Certain Investigations and Other Matters

We receive requests for information from regulators and governmental authorities, such as the National Highway Traffic Safety Administration, the National Transportation Safety Board, the SEC, the Department of Justice ("DOJ") and various state agencies. We routinely cooperate with such regulatory and governmental requests.

In particular, the SEC has issued subpoenas to Tesla in connection with (a) Mr. Musk's prior statement that he was considering taking Tesla private and (b) certain projections that we made for Model 3 production rates during 2017 and other public statements relating to Model 3 production. The DOJ has also asked us to voluntarily provide it with information about each of these matters and is investigating. Aside from the settlement with the SEC relating to Mr. Musk's statement that he was considering taking Tesla private, there have not been any developments in these matters that we deem to be material, and to our knowledge no government agency in any ongoing investigation has concluded that any wrongdoing occurred. As is our normal practice, we have been cooperating and will continue to cooperate with government authorities. We cannot predict the outcome or impact of any ongoing matters. Should the government decide to pursue an enforcement action, there exists the possibility of a material adverse impact on our business, results of operation, prospects, cash flows, and financial position.

We are also subject to various other legal proceedings and claims that arise from the normal course of business activities. If an unfavorable ruling or development were to occur, there exists the possibility of a material adverse impact on our business, results of operations, prospects, cash flows, financial position and brand.

Indemnification and Guaranteed Returns

We are contractually obligated to compensate certain fund investors for any losses that they may suffer in certain limited circumstances resulting from reductions in U.S. Treasury grants or ITCs. Generally, such obligations would arise as a result of reductions to the value of the underlying solar energy systems as assessed by the U.S. Treasury Department for purposes of claiming U.S. Treasury grants or as assessed by the IRS for purposes of claiming ITCs or U.S. Treasury grants. For each balance sheet date, we assess and recognize, when applicable, a distribution payable for the potential exposure from this obligation based on all the information available at that time, including any guidelines issued by the U.S. Treasury Department on solar energy system valuations for purposes of claiming U.S. Treasury grants and any audits undertaken by the IRS. We believe that any payments to the fund investors in excess of the amounts already recognized by us, which were immaterial, for this obligation are not probable based on the facts known at the filing date.

The maximum potential future payments that we could have to make under this obligation would depend on the difference between the fair values of the solar energy systems sold or transferred to the funds as determined by us and the values that the U.S. Treasury Department would determine as fair value for the systems for purposes of claiming U.S. Treasury grants or the values the IRS would determine as the fair value for the systems for purposes of claiming ITCs or U.S. Treasury grants. We claim U.S. Treasury grants based on guidelines provided by the U.S. Treasury department and the statutory regulations from the IRS. We use fair values determined with the assistance of independent third-party appraisals commissioned by us as the basis for determining the ITCs that are passed-through

to and claimed by the fund investors. Since we cannot determine future revisions to U.S. Treasury Department guidelines governing solar energy system values or how the IRS will evaluate system values used in claiming ITCs or U.S. Treasury grants, we are unable to reliably estimate the maximum potential future payments that it could have to make under this obligation as of each balance sheet date.

We are eligible to receive certain state and local incentives that are associated with renewable energy generation. The amount of incentives that can be claimed is based on the projected or actual solar energy system size and/or the amount of solar energy produced. We also currently participate in one state’s incentive program that is based on either the fair market value or the tax basis of solar energy systems placed in service. State and local incentives received are allocated between us and fund investors in accordance with the contractual provisions of each fund. We are not contractually obligated to indemnify any fund investor for any losses they may incur due to a shortfall in the amount of state or local incentives actually received.

Our lease pass-through financing funds have a one-time lease payment reset mechanism that occurs after the installation of all solar energy systems in a fund. As a result of this mechanism, we may be required to refund master lease prepayments previously received from investors. Any refunds of master lease prepayments would reduce the lease pass-through financing obligation.

Letters of Credit

As of September 30, 2018, we had $143.1 million of unused letters of credit outstanding.

Note 13 – Variable Interest Entity Arrangements

We have entered into various arrangements with investors to facilitate the funding and monetization of our solar energy systems and vehicles. In particular, our wholly owned subsidiaries and fund investors have formed and contributed cash and assets into various financing funds and entered into related agreements. We have determined that the funds are variable interest entities ("VIEs") and we are the primary beneficiary of these VIEs by reference to the power and benefits criterion under ASC 810, Consolidation. We have considered the provisions within the agreements, which grant us the power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems or vehicles and the associated customer contracts to be sold or contributed to these VIEs, redeploying solar energy systems or vehicles and managing customer receivables. We consider that the rights granted to the fund investors under the agreements are more protective in nature rather than participating.

As the primary beneficiary of these VIEs, we consolidate in the financial statements the financial position, results of operations and cash flows of these VIEs, and all intercompany balances and transactions between us and these VIEs are eliminated in the consolidated financial statements. Cash distributions of income and other receipts by a fund, net of agreed upon expenses, estimated expenses, tax benefits and detriments of income and loss and tax credits, are allocated to the fund investor and our subsidiary as specified in the agreements.

Generally, our subsidiary has the option to acquire the fund investor's interest in the fund for an amount based on the market value of the fund or the formula specified in the agreements.

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

Pursuant to management services, maintenance and warranty arrangements, we have been contracted to provide services to the funds, such as operations and maintenance support, accounting, lease servicing and performance reporting. In some instances, we have guaranteed payments to the fund investors as specified in the agreements. A fund's creditors have no recourse to our general credit or to that of other funds. None of the assets of the funds had been pledged as collateral for their obligations.

The aggregate carrying values of the VIEs' assets and liabilities, after elimination of any intercompany transactions and balances, in the consolidated balance sheets were as follows (in thousands):

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 73,117	$ 55,425
Restricted cash	76,569	33,656
Accounts receivable, net	25,932	18,204
Prepaid expenses and other current assets	9,306	9,018
Total current assets	184,924	116,303
Operating lease vehicles, net	802,083	337,089
Solar energy systems, leased and to be leased, net	5,091,612	5,075,321
Restricted cash, net of current portion	54,656	36,999
Other assets	56,794	29,555
Total assets	$ 6,190,069	$ 5,595,267
Liabilities		
Current liabilities		

Accounts payable	$ 32	$ 32
Accrued liabilities and other	111,360	51,652
Deferred revenue	21,537	59,412
Customer deposits	443	726
Current portion of long-term debt and capital leases	614,401	196,531
Total current liabilities	747,773	308,353
Deferred revenue, net of current portion	219,312	323,919
Long-term debt and capital leases, net of current portion	1,103,772	625,934
Other long-term liabilities	28,801	30,536
Total liabilities	$ 2,099,658	$ 1,288,742